Britain's Decline

Her Economic Disorder and Its Only Remedy

By
JOHN W. LEA
Fellow of the Royal Economic Society

With a Foreword by
Sir Arthur Steel-Maitland, Bart., M.P.

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One Shilling Net

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Dedicated to the memory of my father
who taught me much
and helped me to learn more

Contents

Foreword

By Sir Arthur Steel-Maitland, Bart., M.P.

Mr. Lea has asked me to write a foreword to this book. I do so gladly, both because of the interest of its contents, and also from admiration of the long and varied activities, both practical and intellectual, of its author.

It may seem arrogant to say that ignorance of the Economics of the existing situation in this country and in Europe is one of the most potent, if not the most potent, cause of our troubles. But it is not really arrogant, since anyone who recognises the need for wider knowledge may be a seeker after it himself, and not a professing wiseacre. In any case it is true. If the facts of the problem as known to the wisest bankers and financiers of the different countries engaged in the war were a matter of common knowledge to the peoples generally, a rehabilitation of Europe would be much nearer than now seems likely. All the more timely, therefore, are careful and thoughtful analyses of different points in the question, and for that reason this volume is welcome. Of this timeliness proof enough is given by the discussion of debts and reparations, and by the Conference of Prime Ministers of the Allied Countries which is proceeding at the time this foreword is written.

The work consists of a series of essays reprinted from the *Economic Journal*, followed by a series of shorter articles which mostly appeared in the *Birmingham Post*. They extend over ten years—from 1912 to 1922. The first impression made is one of disconnectedness. And obviously it is impossible for the same unity to be attained as would be looked for in a book, written at one time, and all gathered into one focus.

But what is lost in concentration is gained in realising the development that has taken place in the writer's views, as it has also in those of others. He starts by investigating various causes which have occasioned a greater decline in the value of representative British securities than has occurred in similar investments in foreign countries. He ends by insisting with increasing emphasis on the importance of productivity.

In this connection the main criticism which might be made is that Mr. Lea does not go far enough. But the fault, if it be such, is one which appears in most of the writings and speeches dealing with the existing situation whether of Europe in general or of Great Britain in particular. Too little attention is directed to the fundamental economic factors, and too much (by comparison at any rate) to the financial side of the question. There is too much tendency to regard the present problem as mainly financial. In point of fact, finance is only the dress that clothes the economic body and bones. Thus, for example, it is not the internal debt of a country that in itself is a weight round its neck, as Mr. Lea, on p. 63, is inclined to regard it. Nor would a cancellation of that debt be of advantage to it, as has recently been asserted in the House of Commons. It would only mean the transference of part of the product of industry from one set of people to another. The underlying fact, evidenced by the existence of such a debt, is that much of the product of industry, which normally would have been returned to industry to increase future productivity, has been diverted to uses necessary for war, but barren from the point of view of peace.

It is not, of course, contended for a moment that finance is not necessary. Without clothes the human body would die. And similarly in a world of infinitely complex industrial relations based on a credit system, finance is necessary to set in motion the productive powers of countries like Austria and Poland. This fact, however, does not detract from the truth of the assertion emphasised so strongly by Mr. Lea, that the factor which is of prime importance, and which should be always kept in view, is economic productivity. It is the productivity of the world that has been impaired by the war, even more perhaps by dislocation than actual destruction. And this impairment is the cause of the diminished well-being. The full restoration of that productivity, and its increase beyond the old level is the pressing problem of the near future. That production is possible to a degree not only equal to, but largely surpassing what obtained before the war, is admitted by all informed observers. But the solution is not yet. Anyone who achieves it will have to keep in mind all the time the hard business facts, and yet look beyond them to the new moral and psychological forces which, without doubt, are affecting the situation. It will need a genius at once practical and philosophical like that of Adam Smith.

ARTHUR STEEL-MAITLAND.

Preface

MUCH has happened calling for Britain's earnest attention while this book has been in the printer's hands. Among those happenings not the least interesting has been the return of the Prince of Wales from his long and great mission to India and the East. On a like occasion he gave us a call to " wake up " to which we did not pay the attention it deserved. This time he sounds a very similar note, which may provide a good text for a brief author's preface to this book. In his speech on July 14th to His Majesty's Government, His Royal Highness said that he had never, during the whole of his eight months' absence, been unmindful of the problems and difficulties which we at home have had to face ; and he proceeded to tell the Government that all the King's subjects in the distant lands which he has recently visited, " look to our courage and common sense for a lead " in dealing with such problems. He has more to speak about, but postpones it till after the holiday which, as the Prime Minister said, no one has ever better deserved, and which the Prince tells us he has every intention of taking. However important these further pronouncements may be, they cannot lessen the weight of the one quoted above in its bearing upon the purpose of this book, which is sufficiently indicated by its title, and which events do not (in the author's opinion) shake in any way. That the pronouncement does bear upon the purpose of the book is clear ; for the speech mentioned " the present economic stringency " as one of the difficulties in the way of smooth and peaceful realisation of our ideals, and alluded particularly to the great numbers in this country whom the universal depression in trade still keeps unemployed. This stringency and unemployment are the main subjects of the book. Where, then, do courage and common sense come in, in dealing with them ? And in what way will our exercise of those qualities give a lead to our fellow-subjects in distant lands ? We are fully justified in asking these questions and in bringing the high authority of the Prince to their consideration. Courage is certainly called for in facing the problem of unemployment, for the immediate cause of unemployment is the impossibility of selling the products of our industries at prices which have prevailed during the war. These prices have been reduced, but trade still languishes and further reduction is needed. Courage must come in here and common sense too—courage in making the reduction, and common sense in recognising that it can be done without injury to anyone, but with benefit to all, if only, but only if, our very low industrial output per man is increased. The principal aim of the book is to demonstrate this, and the author begs the doubtful reader not to prejudge the issue. If all the King's subjects in the distant lands which the Prince has recently visited are looking to us for a lead in such matters, it is worth our while to devote time and attention to them. Economic stringency, again, arises from the burden of an enormous war-debt, and here, too, courage and common sense are needed to bear such a burden without despondency. Success in restoring our languishing trade and providing employment at good wages for our workers without overtaxing their strength or depriving them of needful recreation, might give our fellow-subjects over the seas a lead which would bring about an interchange of products, and go a long way to abolish unemployment wherever it exists, in our Empire. The lesson might even be learned in other countries, and its benefits be extended to them also. Countries even like Russia and Germany, whose peoples are suffering from Bolshevism and worthless, or nearly worthless, currencies, might find in our example a way out of their difficulties, and in that way the restoration of the world from the effects of the late devastating war might be rendered more easy, and unfruitful conferences less frequent.

The author, therefore, invites his readers to further the lead looked for by our fellow-subjects, by bringing their courage and common sense to bear on the questions discussed in the following pages.

Introduction

THE War has added to Great Britain's disorder, and to the difficulty of setting right what is wrong; but the mischief was present in her system before the war, and in the winning of the war we may perhaps discover the means whereby a cure may be hoped for. It is not too much to say that Great Britain is now declining—in trade certainly, and, in power to hold her place among nations, possibly. The decline in her trade was manifest before the war. During the war she certainly showed no lack of power, but she is left with a debt which has so burdened her industries that some of them are brought to a standstill, and others are carried on with difficulty. Unemployment is present in such measure as to be alarming. The result is that her export trade is greatly embarrassed and, if the high place among nations which has been hers in the past should again be challenged, we are becoming conscious that she may not be in a position to maintain it. This is a state of things which demands the attention of all her people whatever their station in life may be.

The contents of this little book tell how the author was driven to study the subject and to learn the lessons which he now wants to pass on to others. A long business experience of a very practical kind had presented to him a problem of great magnitude in which the economic interests of every inhabitant of these islands were concerned, and made him see the paramount importance of a very careful investigation of the facts. In 1912 with the aid of Professor (now Sir William) Ashley, the consent of the Editor of the *Economic Journal* was obtained to the methods of that investigation, and its results, appearing in that *Journal*; and with the Editor's consent (for which the writer thanks him) the four articles explaining them are now republished. The reader will see that it was before the war that the investigation began. The war made it impossible to pursue it on just the old lines. This is explained in the opening sentences of the last of the four articles. The subsequent disturbance of currency values, owing to the drift of the world's gold reserves and supplies to the United States and Japan, has rendered it impossible usefully to compare market prices of investments now with those existing before that disturbance commenced. No such attempt is, therefore, made. Nothing, however, that has happened alters in the slightest degree the lessons learned from that investigation. These lessons were two: (1) The malign influence of restricted industrial output; and (2) the power we possess to regain our old prosperity.

The author's other articles now reprinted are, in effect, an attempt to apply the lessons, above referred to, to the present state of things. The appendices are added in order to throw more light on some of the subjects incidentally touched upon. His indebtedness to the Editor of the *Birmingham Post* for permission to republish all the articles which have appeared in the columns of that journal, and to the writers of the two appendices, is hereby acknowledged with thanks.

It will be seen that though Great Britain's need of reform existed and was urgent before the war, it has been greatly increased by what the war has left us with in the shape of debt and unemployment. The difficulty of setting right what is wrong is also increased by the higher cost of production and the disturbance of markets due to the war. But the solution of our problem remains precisely where the original investigation left it. It can be effected by work, and by work only. The war has shown us how we can do it, and has left us equipped for the task better than ever we have been previously.

J.W.L.

The Depreciation of British Home Investments

REPRINTED FROM *The Economic Journal*, JUNE, 1912.

IN some very large fields, British home investments have been depreciating during the past fifteen years. After a long period of advance in price, broken only by slight checks, and ending in the five years 1892 to 1896 with a rapid and continuous rise, these investments took a sudden turn downwards. The decline has been very serious, especially in the case of what are commonly called "gilt-edged" investments, where it has been almost continuous and very heavy. Moreover, there is no clear sign as yet of any change for the better.

Foreign and colonial investments of a similar character have, as a rule, experienced no such depression. On the contrary, many of them, *e.g.*, railway ordinary stocks and land, have advanced in value, and the advance is still proceeding.

The problem, therefore, is a double one—we have not only to deal with a very large adverse movement of British home investments, but with a movement in which, generally speaking, foreign and colonial investments of a similar character do not share.

Again, this double problem appeals to different minds in different ways. Some are solely concerned to account for so great and exceptional a movement, while others care only to be told when it will come to an end.

A careful investigation of the facts may leave much still to be done before either of these two groups of minds is satisfied, but it is certain that no advance will be made in either direction until such an investigation has been made. It is, therefore, with the object of grasping at any rate some of the facts and giving them enough consideration to put them in due relation to each other that this paper is written. The tables on pages 4–6 show the mean market values of five groups of investments dealt in on British Stock Exchanges: the dividends paid; the average mean value of each group; its yield per cent.; and the number of years' purchase of the dividend represented by that value. Three of the groups are home investments and two are foreign and colonial. In each case the information is repeated over a series of years. On page 3 will be found a diagram of the whole of the groups showing the "years' purchase" not only for the years given in the tables, but for each intermediate year. In selecting the investments the main object has been to include only such as an investor in 1896 who aimed at security rather than high yield would have been likely to buy. Government stocks have been neglected, partly because they have become so much a subject of political controversy, and partly because the ordinary investor was never attracted by the low yields obtainable from them. Stocks, too, which have had a long existence, undisturbed by amalgamations or drawings, were necessary for our purpose, which was to ascertain the general tendency of the market in a sufficient number of what may be termed standard investments. Mean and average prices have been taken to avoid temporary and local fluctuations. In the diagram the price movements themselves could not be used except in combination with their dividend basis, and "years' purchase of dividends" has been preferred to "yield" in order to present to the eye a movement corresponding in direction with the price movement.

An example of what the tables show may be deduced from the following figures abstracted from those tables :—

Year.	British Railway Ordinary Stocks.		Foreign and Colonial Railway Ordinary Stocks.	
	Average Mean Price, per cent.	Dividend. per cent.	Average Mean Price, per cent.	Dividend. per cent.
1896	154·76	5·235	117·88	6·200
1911	107·91	5·097	155·82	8·100

If an investor in 1896 had invested £3,000 in the British stocks at the average mean price shown above, he would have become the owner of £1,938 of stock producing £101 7s. per annum. An equal sum invested in the foreign and colonial stocks would have given him £2,545 of stock producing £157 15s. per annum. In 1911 the British stocks would have sunk in value to £2,091 and their dividend to £97 5s. per annum, while the foreign and colonial group would have risen to £3,965 and their dividends to £205 2s. 10d. per annum. The investor would therefore find that his foreign and colonial holdings are now worth nearly double the value of his British holdings, and that the former are producing more than twice as much income as the latter. And the comparison is even more unfavourable than this to the British holdings, for while the foreign and colonial stocks have given him a good many valuable allotments of new issues, which are not taken account of in the above figures, the British railways have done practically nothing of the kind. We here see a very important group of British home investments falling disastrously in price, while a similar group of foreign and colonial investments have been moving almost as violently in the opposite direction.

SOME BRITISH HOME INVESTMENTS COMPARED WITH SOME SIMILAR FOREIGN AND COLONIAL INVESTMENTS.

Average Mean Annual Prices (reduced to number of years' purchase of Dividends); see tables on pp. 4, 5, 6.

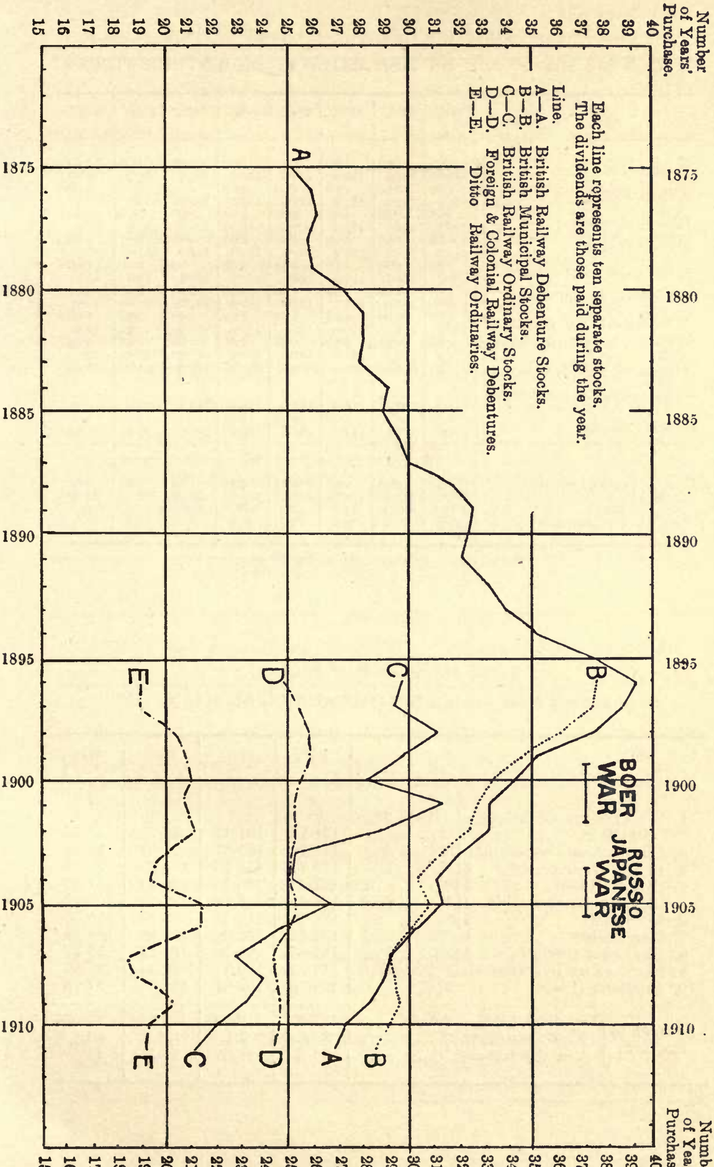


TABLE I.—(Line A of Diagram).

Dividends and Mean Prices. BRITISH RAILWAY DEBENTURE STOCKS.

—		1876.	1881.	1886.	1891.	1896.	1901.	1906.	1911.
1. Caledonian		4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00
		104·00	107·5	116·2	126·6	156·9	135·2	121·2	108·00
2. Great Eastern		4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00
		102·5	112·2	117·0	127·5	154·2	131·0	119·1	106·2
3. Great Northern		4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00
		105·2	114·7	120·5	100·5	119·1	100·0	92·0	81·6
4. Great Western		4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00
		105·2	114·7	121·0	131·9	157·7	134·0	123·4	109·5
5. Lancashire and Yorkshire ..		4·00	4·00	4·00	4·00	3·00	3·00	3·00	3·00
		105·2	114·7	118·0	128·0	119·7	100·5	91·8	81·2
6. London and North Western		4·00	4.00	4·00	4·00	3·00	3·00	3·00	3·00
		105·7	115.0	121·7	132·7	119·9	103·2	95·8	84·2
7. London and South Western		4·00	4.00	4·00	3·00	3·00	3·00	3·00	3·00
		105·7	115.5	120·0	100·2	119·9	101·8	93·0	81·9
8. London, Brighton and South Coast		4·50	4.50	4·50	4·50	4·50	4·50	4·50	4·50
		114·0	124.0	130·5	143·0	173·7	147·4	133·0	120·2
9. (*a*) Manchester, Sheffield and Lincs.		(*a*)4.50	(*b*)4.00	(*b*)4·00	(*b*)4·00	(*b*)4·00	(*b*)4·00	(*b*)4·00	(*b*)4·00
(*b*) London, Tilbury and South end		113·0	107.5	116·0	123·0	154·1	130·5	117·0	106·1
10. North British		4·00	4.00	4·00	4·00	3·00	3·00	3·00	3·0
		102·7	107.9	114·7	124·6	116·4	100·0	91·0	80·60
Average of the Ten.	Dividend, per cent. ..	4·10	4·05	4·05	3·85	3·55	3·55	3·55	3·55
	Price „ ..	106·32	113·37	119·56	123·80	139·16	118·36	107·73	95·95
	Yield „ ..	3.17.1	3.11.3	3.7.9	3.2.2	2.11.0	3.0.0	3.5.7	3.14.0
	Years' Purchase ..	25·9	28·0	29·5	32·2	39·2	33·3	30·3	26·8

The dividends are those paid during the year.

TABLE II.—(Line B of Diagram).

Dividends and Mean Prices. BRITISH MUNICIPAL SECURITIES.

		1896.	1901.	1906.	1911.
1. Metropolitan Consolidated (1941) 3% Stock		121·75	101·37	93·75	89·25
2. Birmingham Corporation (1947) 3%		114·00	100·87	91·87	86·44
3. Bristol Irredeemable 3½% Stock		132·75	114·25	104·50	97·75
4. Cardiff (1935) 3½% „ ...		122·31	106·75	101·37	97·00
5. Glasgow Irredeemable 3½% „ ...		135·25	118·75	107·37	102·12
6. Liverpool „ 3½% „ ...		136·75	117·75	108·12	100·50
7. Manchester „ 4 % „ ...		151·12	132·06	123·56	114·69
8. Newcastle (1936) 3½% „ ...		121·37	106·50	101·25	97·37
9. Nottingham Irredeemable 3% Stock		117·12	100·37	90·44	87·87
10. Bradford (1945) 3½% „		123·25	109·31	101·75	97·75
Average of the Ten.	Dividend, 3·4%. Price ...	127·567	110·798	102·398	97·074
	Yield, per cent.	2.13.4	3.1.4	3.6.5	3.10.1
	Years' Purchase	37·5	32·6	30·1	28·5

TABLE III.—(Line C of Diagram).

Dividends and Mean Prices. BRITISH RAILWAY ORDINARY STOCKS.

—	1896.	1901.	1906.	1911.
1. Caledonian	5·25 154·56	3·62 124·40	4·00 110·60	3·37 85·75
2. Great Eastern	2·75 98·62	2·62 101·75	3·37 85·19	3·37 71·12
3. Great Western	5·87 173·25	4·00 140·06	5·37 133·19	6·00 126·31
4. Lancashire and Yorkshire ...	5·12 140·44	3·62 117·87	4·12 105·12	4·62 97·12
5. London and North Western ...	6·87 197·69	5·50 169·31	6·37 155·50	6·87 141·12
6. London and South Western ...	6·37 207·25	5·50 176·00	6·00 153·00	6·12 141·37
7. London, Brighton & South Coast...	6·50 185·50	4·75 142·00	5·62 133·62	5·62 115·50
8. North Eastern " Consols " ...	6·12 173·56	5·75 160·25	5·75 140·94	6·25 130·37
9. North Staffordshire	4·25 130·25	3·62 107·75	4·25 101·19	4·75 94·44
10. Taff Vale	3·25 86·50	2·87 71·50	3·87 79·62	4·00 76·00
Average of the Ten. Dividend, per cent. ...	5·235	4·185	4·872	5·097
Average of the Ten. Price ,, ...	154·762	131·089	119·797	107·910
Average of the Ten. Yield ,, ...	3.7.8	3.3.10	4.1.4	4.14.6
Average of the Ten. Years' Purchase ...	29·6	31·3	24·6	21·2

The dividends are those paid during the year.

TABLE IV.—(Line D of Diagram).

Dividends and Mean Prices. FOREIGN AND COLONIAL RAILWAY OBLIGATIONS.

	1896.	1901.	1906.	1911.
1. Northern of France 3% Obligations	95·0	91·1	91·1	84·1
2. Grand Russian (Nicolai) 4% Bonds	99·0	97·1	76·5	89·1
3. Pennsylvania 4½% Gold Bonds ...	113·0	111·6	104·8	104·1
4. Chic. Mil. & St. Paul 4% Gen. Mort. Bds.	95·2	115·0	111·9	104·1
5. Buenos Ayres Gt. Southn. 4% Deb. Stock	119·5	111·0	106·2	102·2
6. Central Argentine 4% Deb. Stock ...	110·1	102·9	105·5	101·4
7. Mexican Railway 6% Perp. Deb. Stock	131·1	132·7	144·0	139·6
8. Nitrate Railways 5% 1st Mort. Bds.	88·6	97·7	105·2	105·2
9. Canadian Pacific 4% Con. Deb. Stock	105·2	110·1	110·9	104·4
10. Atlantic and St. Lawrence 6% Shares	152·5	160·5	157·7	150·1
Average of the Ten. Dividend, 4·45%. Price ...	110·92	112·97	111·38	108·43
Average of the Ten. Yield, per cent.	4.0.3	3.18.9	3.19.11	4.2.1
Average of the Ten. Years' Purchase	24·9	25·4	25·0	24·4

TABLE V.—(Line E of Diagram).

Dividends and Mean Prices. FOREIGN AND COLONIAL RAILWAY ORDINARY STOCKS AND SHARES.

	1896.	1901.	1906.	1911.
1. Canadian Pacific	2·00 58·06	5·00 104·50	6·50 184·94	10·00 227·69
2. Chicago, Milwaukee & St. Paul	4·00 72·37	6·00 171·31	7·00 178·50	7·00 122·94
3. Illinois Central	5·00 93·69	6·00 143·81	7.00 179·81	7·00 143·44
4. New York Cent. & Hudson's Riv.	4·00 96·06	5·00 160·50	5·25 145·12	5·00 111·50
5. Pennsylvania	5·00 116·12	6·00 154·25	6·50 139·12	6·00 128·37
6. Buenos Ayres Great Southern	5·50 130·12	7·00 137·75	7·00 133·69	7·00 121·37
7. Buenos Ayres Western ...	6·00 120·62	6·00 104·69	7·00 131·12	7·50 128·37
8. Central Argentine	2·50 64·25	3·75 65·87	6·00 115·87	6·00 107·44
9. Rio Claro San Paulo	14·00 231·87	14·00 244·68	14·00 262·50	13·50 257·50
10. San Paulo (Brazilian)... ...	14·00 195·62	10·00 151·50	12·00 207·19	12·00 209·56
Average of the Ten. Dividend, per cent.	6·200	6·875	7·825	8·100
Average of the Ten. Price " ...	117·878	143·886	167·786	155·818
Average of the Ten. Yield " ...	5.5.2	4.15.6	4.13.3	5.4.0
Average of the Ten. Years' Purchase ...	19·0	20·9	21·4	19·2

The dividends are those paid in the year.

But the problem is a wider one, as the diagram will show. We there have not only railway ordinary stocks compared, but their debenture stocks or "obligations." And we have a fifth line showing the movement of British municipal stocks during the same period. These five lines show that while the British groups have been falling the foreign and colonial have remained almost stationary in regard to years' purchase of dividends. The inclusion of these other groups emphasises the importance of the problem. It is well known, too, that Government stocks are no exception to the rule established by this diagram, for we may fairly regard it as a rule when no fewer than fifty stocks are included in the comparison. Moreover, a glance at any list of investment prices will confirm the general effect of this diagram, and signs are not wanting that land and houses in Great Britain have likewise been passing through a very similar experience, while certainly elsewhere a precisely opposite movement has been going on.

The full problem would thus seem to be—how to explain a depreciation in British home investments taken as a whole (a depreciation which stands out as an exception when compared with the history of other similar investments abroad); and how to obtain any light upon the probable duration of this great adverse movement.

The difficulty of our task is greatly increased by a reference to the Board of Trade returns of our foreign trade, which show that while our home investments have been falling, as we have seen, our foreign commerce has been increasing by "leaps and bounds." Recently published figures prove that in the past eight years our imports have increased in value 25 per cent., our exports 56 per cent., and our re-exports 47 per cent., and that 1911 was a record year. Our foreign trade has been increasing, while our home investments have been depreciating, and the opposite movements have been equally remarkable as regards their strength. The apparent inconsistency does but add to the importance of our inquiry.

We have said that the fall which we are considering came "after a long period of advance in price, broken only by slight checks, and ending in the five years 1892 to 1896 with a rapid and continuous rise," and we now draw attention to the line in the diagram which proves the truth of the statement. It will be seen that one line goes back to 1875 and that it indicates the course of the market in British railway debenture stocks. These stocks constitute a trustworthy standard for our purpose because they have always been, and still are, regarded as beyond the reach of any possible income disturbance. Their price fluctuations, therefore, must be due to those general causes which we are in search of. A glance at the line shows the very remarkable change which occurred in 1896—a very decided and long-continued advance suddenly changed into an equally decided and long-continued decline. The slight set-backs in 1878, 1882–3, 1885, 1890–1 can be accounted for by fears of war, the failure of great banks, and poor harvests; but these events—great as they seemed at the time—were but transient and slight in their effects, and the advance then in progress was quickly resumed. In view of such facts as these, which could be multiplied, what is it that can account for the enormous and long continuing change that set in in 1896? The question "When may we look for a turn of the tide?", important and engrossing as it no doubt is, can hardly be approached until we have gained some idea of the cause or causes of so enormous a change.

Several explanations of the fall are commonly offered which, when examined, do not explain it. For instance, the Boer War, which figures so prominently in most attempts, did not begin till the fall had been in progress three years, and it is a remarkable fact that one of the two slight checks in that fall was during that war, the other being during the Russo-Japanese War. We may perhaps, incidentally, learn from these two remarkable breaks in the otherwise continuous downward gradient in the line something that will help us in our investigation. Contemporary history shows that those two wars were the cause of considerable industrial activity in Great Britain. In each case one of the combatants borrowed largely and spent largely in this country. Is it not more than probable that this expenditure meant profitable trade, and that profitable trade and the accompanying check to the fall of investments stand in the relationship of cause and effect ? If so, have we not here a suggestion that it is to economic causes we must look for the explanation we are in search of ? But when we reflect upon the magnitude of the sums spent in this country during those two wars, and observe how slight and transient was the effect upon the price of investments, we are led to the conclusion that, if the violent disturbance which began in 1896 and has persisted ever since, is of an economic character, it must be due to some cause or causes of great economic importance. It is as if one of our great Atlantic liners were suddenly to find herself in a sea so heavy as to threaten even her stability. To account for such a sea something greater than ordinary storms must have happened.

Another alleged cause is the occurrence of strikes and lock-outs, but they have not been confined to this country, and their occurrence in other countries has not proved capable of such effects there. So, however disturbing they may have been to our industries, we cannot regard them as affording any adequate explanation of what has happened in our investment markets.

The Colonial Stock Act, 1900, again, is often said to have had a great deal to do with the fall, because it enlarged the investment powers of trustees. But British railway ordinary stocks are not, and never were, in the trustee class, and yet, as we have seen, they have fully shared in the depreciation. Moreover, the depreciation began four years before the Act was passed. A depreciation affecting not only trustee stocks, but other large classes of investments also, and one which had already been four years in progress, can hardly be attributed to an Act which, after all, only to a very moderate extent enlarged the powers of trustees. It is another case of the wolf and the lamb.

Several other alleged causes may be briefly reviewed and—with those already considered—dismissed as incapable of producing the effects exhibited in our diagram.

It is often supposed that the great rise in investment markets which came to an end in 1896 was to a great extent caused by a long period of cheap money ; and there undoubtedly is a strong resemblance between the average yield of high-class investments and the average price of money as indicated by average bank rates. The two lines correspond pretty closely ; but do they stand to each other in the relationship of cause and effect ? Low bank rates no doubt facilitate speculation in securities yielding a low return ; but conversely, high bank rates bring such speculation to a speedy end. The bank rate is constantly moving between wide limits, so that the resultant stock market movements—however considerable—must tend to balance one another and—like the extremes of the bank rate—to be lost in the average of the period. Is it not much more probable that both "average yield" and "average bank rates" are effects, and effects of the same cause or causes? Whatever it was that in 1896 caused investors to accept a yield of £2 11s. per cent. from British railway debenture stocks would also cause bankers to accept a rate of £2 9s. 6d. per cent.

The reduction and occasional suspension of what is called "the old sinking fund" is constantly referred to as answerable for much of the depreciation in Consols, but Consols have merely shared the fate of other British home investments; and it is quite certain that the fall in such stocks as British railway ordinaries can have no possible connection with the variations of the sinking fund.

Yet again, the movements both upward and downward recorded in our diagram exhibit sublime indifference to the varying fortunes of our political parties; so we must decline to regard political changes as accountable for those movements, though we may perhaps feel that the movements themselves call for the attention of men in high political and official positions.

Two other developments there are which, though they cannot be said to have brought about the downward turn in 1896, have no doubt had their influence in helping on its continuance.

The readiness of the ordinary British investor to buy foreign and colonial investments had not made itself much felt in 1896, but it cannot be denied that this readiness now exists and that it is increasing. Many who once refused to look at a foreign or colonial share or bond will now buy nothing else, and others are only less completely turning their attention in the same direction. Whatever it is which so entirely reversed the price tendency of British investments in 1896 may well have brought about this change also, and the consequent withdrawal of money from home markets would, of course, help the downward price movement. The reports of the Commissioners of Inland Revenue show how considerable the flow of British capital to foreign and colonial countries has become, and full weight must be given to the fact.

At first sight it would appear that whatever influence the enlarged output of gold would have upon the price of investments would be in an upward direction. The price of commodities is admittedly advanced by a sufficiently increased supply of gold; why should the price of investments be depressed? Yet no doubt an indirect adverse influence may follow from the raising of the cost of wages and raw materials at a time when competition prevents the raising of the price of manufactures. In that way trading profits may be reduced, and ultimately the value of investments may be affected by the consequent falling-off of demand for them. But such an effect could only be confined to this country if industrial competition, to an extent capable of materially affecting trade profits, existed here alone. We should have to prove exceptional industrial competition before we could attribute exceptional depression in the investment markets here to the increased output of gold. Unaided by such exceptional competition, only an opposite effect could be produced.

In such exceptional competition, however, there is reason to think, is to be found the clue to the mystery. If we turn to particular industries, the iron and steel trades seem to offer a field of inquiry that will yield valuable information. For it was mainly to the successes which attended our efforts in developing our mineral resources that the prosperity which we enjoyed during the nineteenth century was due. And it is matter of common knowledge that the iron trade of this country is now carried on under competition of a severe kind. This competition affects us where, as Lord Aberconway has told us, we once "enjoyed a practical monopoly," but where our trade is now carried on under fiscal conditions which it is claimed shut us out of markets once open to us, and there give to our competitors the monopoly we have lost. Subsidies in aid of exports, and bounties on production, have also been offered to our competitors and denied to us. So universal have these protective duties become, and so frequently are our manufacturers handicapped by subsidies and bounties enjoyed by their foreign and colonial rivals, that it is scarcely possible to resist the conclusion that the competition to which the iron trade of this country is exposed is of a quite exceptional character. There is, too, in the publications of the British Iron Trade Association a mass of evidence which goes far to prove that 1896 was the year in which this exceptional competition first began to make itself felt to an extent which would be likely to affect our investment markets, and that the stress still continues. All our manufacturing trades into which iron (or steel) enters are probably affected directly or indirectly in a precisely similar way: while sharing in the general advance of "cost," caused by the enlarged output of gold, their "selling prices" are no doubt kept down by the same exceptional competition. Lord Furness, speaking of the mercantile marine engineering industry of the north-east coast, has recently been complaining of "competition unrestricted by anything short of ruin to those engaged in it."—(*Times F. and C. Supplement*, December 4th, 1911.)

This restriction of trading profits has, moreover, been accompanied by a demand for capital in foreign and colonial countries, which has been largely met in this country and has thus to some extent deprived our home industries of the means (as the Chairman of Dorman, Long and Co. tells us) of bringing themselves "into such a condition as will enable them to compete with our foreign rivals." "British capital," he says, "is being largely invested abroad: our home industries are not attracting it."—(December 5th, 1911.)

We may then sum up the position of the British manufacturer thus; —Since 1896 he has been exposed to exceptional competition; during the same period his raw materials and wages have been rising in price; and the capital needed to enable him to meet competition has been largely sent abroad.

It may be objected to this view that many of our manufacturers are prosperous, but on the other hand some of them are not so, and where prosperity is found there is also, generally, found with it something in the nature of monopoly—a monopoly, perhaps, which enables the fortunate possessor to throw upon other British manufacturers, who must buy his product, the enhanced cost at which he works. Or, possibly, prosperity may be due to the possession of capital sufficient to provide labour-saving machinery to an extent that will enable the owner to crush out home competition and so materially increase his own output. Prosperity so gained, however, does not represent pure gain to the community. It may, indeed, involve a loss to the crushed-out competitor and his employees exceeding the profit gained by himself, and in that case the saving power of the community is reduced.

A *primâ facie* case, then, seems to exist for holding that the exceptional decline in the value of British home investments which began in 1896, and which has since continued, synchronizes with and may be very largely due to exceptional competition, first in the iron trade and afterwards in other manufacturing trades of this country,—a competition which, when aided by increased cost of both manufacture and living, would be capable of materially reducing the saving power of the community. Add to this weakening of saving-power the withdrawal of capital for export, and it may well be that we have reached the full explanation of the depreciation we have been considering. But an attempt to prove this contention in detail would demand an article to itself and must be postponed for the present.

The Depreciation of British Home Investments

II.

REPRINTED FROM *The Economic Journal*, JUNE, 1913.

THE tables published in *The Economic Journal* of June, 1912, are brought up to date below by the addition of the figures for 1912.

TABLE I.—(Line A of Diagram).
Dividends and Mean Prices. BRITISH RAILWAY DEBENTURE STOCKS.

	1876.	1881.	1886.	1891.	1896.	1901.	1906.	1911.	1912.
1. Caledonian	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4.00	4·00
	104·00	107·5	116·2	126·6	156·9	135·2	121·2	108.00	104·0
2. Great Eastern ..	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00
	102·5	112·2	117·0	127·5	154·2	131·0	119·1	106·2	102·4
3. Great Northern ..	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00	3·00
	105·2	114·7	120·5	100·5	119·1	100·0	92·0	81·6	78·8
4. Great Western ..	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00
	105·2	114·7	121·0	131·9	157·7	134·0	123·4	109·5	106·6
5. Lancashire and Yorkshire	4·00	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00
	105·2	114·7	118·0	128·0	119·7	100·5	91·8	81·2	78·3
6. London and North Western	4·00	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00
	105·7	115·0	121·7	132·7	119·9	103·2	95·8	84·2	80·9
7. London and South Western	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00	3·00
	105·7	115·5	120·0	100·2	119·9	101·8	93·0	81·9	79·1
8. London Brighton and South Coast ..	4·50	4·50	4·50	4·50	4·50	4·50	4·50	4·50	4·50
	114·0	124·0	130·5	143·0	173·7	147·4	133·0	120·2	116·0
9. (*a*) Manchester, Sheffield and Lincs. .. (*b*) London, Tilbury, and Southend .. (*c*) Great Central ..	(*a*) 4·50	(*b*) 4·00	(*b*) 4·00	(*b*) 4·00	(*b*) 4·00	(*b*) 4·00	(*b*) 4·00	(*b*) 4·00	(*c*) 4·50
	113·0	107·5	116·0	123·0	154·1	130·5	117·0	106·1	113·0
10. North British ..	4·00	4·00	4.00	4·00	3·00	3·00	3·00	3·00	3·00
	102·7	107·9	114·7	124·6	116·4	100·0	91·0	80·6	78·3
Average of the Ten. Dividend, per cent	4·10	4·05	4·05	3·85	3·55	3·55	3·55	3·55	3·60
Price ,,	106·32	113·37	119·56	123·80	139·16	118·36	107·73	95·95	93·74
Yield, ,,	3.17.1	3.11.3	3.7.9	3.2.2	2.11.0	3.0.0	3.5.7	3.14.0	3.16.8
Years' Purchase	25·9	28·0	29·5	32·2	39·2	33·3	30·3	26·8	26·0

The dividends are those paid during the year.

TABLE II.—(Line B of Diagram).
Dividends and Mean Prices. BRITISH MUNICIPAL SECURITIES.

	1896.	1901.	1906.	1911.	1912.
1. Metropolitan Consolidated (1941) 3% Stock ...	121·75	101·37	93·75	89·25	87·56
2. Birmingham Corporation (1947) 3% Stock ...	114·00	100·87	91·87	86·44	83·50
3. Bristol Irredeemable 3½% Stock	132·75	114·25	104·50	97·75	94·25
4. Cardiff (1935) 3½% ,,	122·31	106·75	101·37	97·00	95·00
5. Glasgow Irredeemable 3½% Stock	135·25	118·75	107·37	102·12	100·00
6. Liverpool ,, 3½% ,,	136·75	117·75	108·12	100·50	98·87
7. Manchester ,, 4 % ,,	151·12	132·06	123·56	114·69	111·75
8. Newcastle (1936) 3½% ,,	121·37	106·50	101·25	97·37	95·75
9. Nottingham Irredeemable 3% Stock	117·12	100·37	90·44	87·87	86·44
10. Bradford (1945) 3½% ,,	123·25	109·31	101·75	97·75	96·87
Average of the Ten: Dividend, 3·4% Price	127·567	110·798	102·398	97·074	94·999
Yield per cent. ...	2.13.4	3.1.4	3.6.5	3.10.1	3.11.7
Years' Purchase	37·5	32·6	30·1	28·5	27·9

TABLE III.—(Line C of Diagram).

Dividends and Mean Prices. BRITISH RAILWAY ORDINARY STOCKS.

	1896.	1901.	1906.	1911.	1912
1. Caledonian	5·25	3·62	4·00	3·37	3·25
	154·56	124·40	110·60	85·75	78·62
2. Great Eastern	2·75	2·62	3·37	3·37	2·87
	98·62	101·75	85·19	71·12	65·25
3. Great Western	5·87	4·00	5·37	6·00	5·37
	173·25	140·06	133·19	126·31	118·31
4. Lancashire and Yorkshire ...	5·12	3·62	4·12	4·62	4·12
	140·44	117·87	105·12	97·12	91·56
5. London and North Western	6·87	5·50	6·37	6·87	6·37
	197·69	169·31	155·50	141·12	134·75
6. London and South Western	6·37	5·50	6·00	6·12	5·50
	207·25	176·00	153·00	141·37	128·62
7. London, Brighton & South Coast	6·50	4·75	5·62	5·62	5·00
	185·50	142·00	133·62	115·50	111·12
8. North Eastern "Consols"	6·12	5·75	5·75	6·25	5·75
	173·56	160·25	140·94	130·37	123·34
9. North Staffordshire ...	4·25	3·62	4·25	4·75	4·37
	130·25	107·75	101·19	94·44	89·25
10. Taff Vale	3·25	2·87	3·87	4·00	3·50
	86·50	71·50	79·62	76·00	73·25
Average of the Ten. Dividend, per cent.	5·235	4·185	4·872	5·097	4·610
Price „ ...	154·762	131·089	119·797	107·910	101·407
Yield „ ...	3.7.8	3.3.10	4.1.4	4.14.6	4.10.11
Years' Purchase ...	29·6	31·3	24·6	21·2	22·0

The dividends are those paid during the year.

TABLE IV.—(Line D of Diagram).

Dividends and Mean Prices. FOREIGN AND COLONIAL RAILWAY OBLIGATIONS.

	1896.	1901.	1906.	1911.	1912.
1. Northern of France 3% Obligations	95·0	91·1	91·1	84·1	83·4
2. Grand Russian (Nicolai) 4% Bonds	99·0	97·1	76·5	89·1	85·5
3. Pennsylvania 4½% Gold Bonds	113·0	111·6	104·8	104·1	102·7
4. Chic. Mil. and St. Paul 4% Gen. Mort. Bds.	95·2	115·0	111·9	104·1	101·6
5. Buenos Ayres Gt. Southern 4% Deb. Stock	119·5	111·0	106·2	102·2	101·0
6. Central Argentine 4% Deb. Stock	110·1	102·9	105·5	101·4	100·3
7. Mexican Railway 6% Perp. Deb. Stock	131·1	132·7	144·0	139·6	137·9
8. Nitrate Railways 5% 1st Mort. Bds.	88·6	97·7	105·2	105·2	106·0
9. Canadian Pacific 4% Con. Deb. Stock	105·2	110·1	110·9	104·4	102·2
10. Atlantic and St. Lawrence 6% Shares	152·5	160·5	157.7	150·1	146·1
Average of the Ten. Dividend, 4·45%					
Price	110·92	112·97	111·38	108·43	106·67
Yield, per cent. ...	4.0.3	3.18.9	3.19.11	4.2.1	4.3.5
Years' Purchase ...	24·9	25·4	25·0	24·4	24·0

TABLE V.—(Line E of Diagram).

Dividends and Mean Prices. FOREIGN AND COLONIAL RAILWAY ORDINARY STOCKS AND SHARES.

	1896	1901.	1906.	1911.	1912.
1. Canadian Pacific ...	2·00	5·00	6·50	10·00	10·00
	58·06	104·50	184·04	227·69	258·62
2. Chicago, Milwaukee	4·00	6·00	7·00	7·00	5·00
and St. Paul ...	72·37	171·31	178·50	122·94	111·00
3. Illinois Central ...	5·00	6·00	7·00	7·00	7·00
	93·69	143·81	179·81	143·44	134·62
4. New York, Cent. and	4·00	5·00	5·25	5·00	5·00
Hudson's River	96·06	160·50	145·12	111·50	116·81
5. Pennsylvania ...	5·00	6·00	6·50	6·00	6·00
	116·12	154·25	139·12	128·37	126·75
6. Buenos Ayres Great	5·50	7·00	7·00	7·00	7·00
Southern ...	130·12	137·75	133·69	121·37	125·25
7. Buenos Ayres Western	6·00	6·00	7·00	7·50	7·00
	120·62	104·69	131·12	128·37	127·19
8. Central Argentine ...	2·50	3·75	6·00	6·00	6·00
	64·25	65·87	115·87	107·44	107·31
9. (*a*) Rio Claro San Paulo ...	14·00	14·00	14·00	13·50	6·00
(*b*) Great Western of Brazil ...	(*a*) 231·87	(*a*) 244·68	(*a*) 262·50	(*a*) 257·50	(*b*) 105·31
10. San Paulo (Brazilian)	14·00	10·00	12·00	13·00	13·00
	195·62	151·50	207·19	209·56	234·50
Average of the Ten: Dividend, per cent	6·200	6·875	7·825	8·200	7·200
Price „	117·878	143·886	167·786	155·818	144·736
Yield „	5.5.2	4.15.6	4.13.3	5.5.3.	4.19.6
Years' Purchase	19·0	20·9	21·4	19·0	20·1

The dividends are those paid in the year.

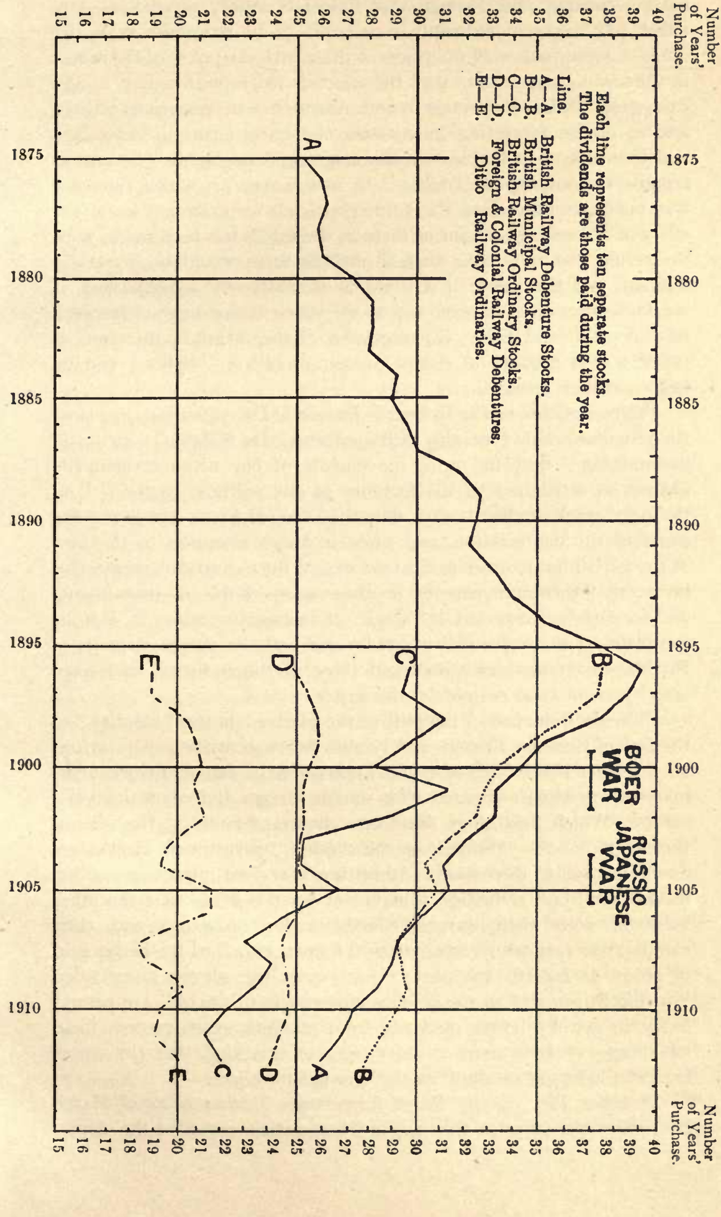
A slight error in the 1911 figures in Table V. has been corrected. The diagram which appeared a year ago is brought up to date on p. 15.

The added figures in no way alter the effect of those which precede them. British Railway Debenture stocks and British Municipal stocks have continued their decline, and there is still no sign of any change for the better. British Railway ordinary stocks have likewise continued to fall in price, though, through strikes having reduced dividends in a higher ratio, "years' purchase of dividends" in their case shows an increase. Foreign and colonial railway debentures have declined, but to a smaller extent than the corresponding British stocks; while the rise in "years' purchase of dividends" observable in foreign and colonial railway ordinaries is due more to rise in price than to fall in dividend. Thus the problem remains a double one—we have not only to deal with a movement adverse to British home investments, but with one in which foreign and colonial investments share, if at all, only to a less extent.

The effect of "redemption" upon the averages shown in the tables, and therefore upon the lines in the diagram, has been carefully looked into. Some of the investments in Tables II. and IV.—British Muni-

SOME BRITISH HOME INVESTMENTS COMPARED WITH SOME SIMILAR FOREIGN AND COLONIAL INVESTMENTS.

Average Mean Annual Prices (reduced to number of years' purchase of Dividends); see tables on pp. 12, 13, 14.



cipal securities, and Foreign and Colonial railway obligations—are either in process of redemption or liable to be redeemed at future dates. A comparison of the prices of these with the prices of the others in the same groups shows that the effect of redemption is not, in any case, great, and as it operates in both directions—in some cases raising, and in others depressing, prices—the net effect upon the averages, and therefore upon the lines in the diagram, is negligible. So also as regards the matter of "rights" to new issues (to which reference was made on page 2 of the former article), an examination of the effect of not taking account of them in the tables has been made, with the result that it is clear that to include them would be extremely difficult, and that, even if it could be satisfactorily accomplished, it would merely widen to some extent the space in the diagram between the lines C-C and E-E. No alteration of the diagram, therefore, is called for on account of either "redemption" or "rights," and its lessons remain unimpaired.

Professor Cohn, in *The Economic Journal* of December last, mentions the previous article generally with approval. He finds it "very justly maintaining" that the price movements of our home investments cannot be attributed to the fortunes of our political parties; "on the right track" when it says that the Colonial Stock Act is not the cause of the depreciation, and when it draws attention to the flow of British capital to other countries; and of the movements themselves he says, "these movements in the various kinds of investments are accurately illustrated by means of instructive tables." But he complains that the parallel which he sees between the movements of British Government securities and those of the securities of foreign states has not been noticed by the writer.

Professor Cohn finds "the pith of the matter" in the "identity" of the fate of German, French, and English State securities. The writer, on the other hand, finds it in the "exceptional" fate of British home investments when compared with similar foreign and colonial investments. Which field offers the better chance of finding "the pith of the matter"—the "State" or the "other" investment market—is no doubt open to discussion. Admitting the great importance of the market for State securities, is it not at least possible that the other markets, with their superior facilities for grouping, and their comparative remoteness from political influences, afford the better field of study as regards the past? And when the survey is extended "to the future and to the coming movements in prices," are we not likely to get the better guidance from markets which possess these advantages? It is from considerations of this kind that the writer has been led to leave the "State" market to others.

Professor Rist, in the *Revue Economique Internationale* of March last, expresses surprise that the previous article regarded the depreciation of British home investments as exceptional, but he entirely ignores the evidence cited in support of that statement. The tables and the diagram require more consideration than he seems to have given them. How does he explain, for instance, the enormous difference between the two lines *C—C* and *E—E* in the diagram? His article goes a long way to prove that France has been very prosperous during the past fifteen years, and that as a consequence French investors have been attracted by her industrial and commercial issues. It is good that France has prospered, but it does not follow that Great Britain has been equally fortunate. There is, indeed, as will appear later, grave reason to fear that she has not.

Other writers—notably Professor R. A. Lehfeldt, and M. Paul Leroy-Beaulieu, the former in the Royal Statistical Society's Journal, and the latter in *L'Economiste Français* (of January last)—have been dealing in different ways with the subject of falling prices in the investment markets, and their writings are of much interest. But they have not said anything which seems in the slightest degree to shake the evidence of the tables given above.

The conclusion reached, on other evidence, in the previous article that "the exceptional decline in the value of British home investments synchronizes with, and may be very largely due to, exceptional competition, first in the iron trade and afterwards in other manufacturing trades of this country"—may seem falsified by the many reports of general prosperity during 1912, but signs are not wanting that, so far as the trades referred to are concerned, the prosperity is apparent rather than real. No figures—official or otherwise—are available whereby industrial profits can be accurately measured; but now and then light is shed on the subject, and on October 5th last two speeches were reported from which something may be learned. Mr. W. Peter Rylands, at the ordinary general meeting of the Pearson and Knowles Coal and Iron Company, Ltd., is reported as saying that "during the last few years he could not call to mind one single new company carrying on a similar business being started in the iron and steel trade. He had known plenty of companies go down, crushed, doubtless, by the burdens which had to be borne by the industry. Two or three companies had closed down during the last few months, tired of struggling, and had gone into voluntary liquidation. No new company could start with any hope of success under existing conditions. . . ." This points unmistakably to a loss of capital and resources which, in any general estimate of national prosperity, must be written off against the profit made by similar concerns elsewhere. The other speech was by Lord Aberconway at the annual meeting of the Sheepbridge Coal and Iron Company, Ltd., who gave figures which showed that the pig iron output of that company had about doubled during the past twenty years. The capital had, he said, remained " practically the same " during that period, and the dividend had " kept up." If this condition of things applies to our coal and iron trades generally, it would seem that those of our mining companies which remain at work are exhausting their resources, and therefore what remain of the mineral resources of the country, twice as fast as they were twenty years ago, without improving their profits in doing so. Regarded in the light thrown upon them by these two speeches, the Board of Trade figures, whether we take them from " Iron and Steel, 1911 " or from other returns, are certainly not calculated to inspire one with confidence in the strength of our manufacturing position, based as it is so largely upon our mineral resources. A glance at the figures given us by the Director of the Census of Production shows how completely, if we omit trades occupied in housing, clothing, and feeding the people, our industries are built upon our coal and iron. How far we can find profitable employment for our people if our iron mines fail us is problematical. We are, it is said, more and more devoting ourselves to high-class manufactures, and so long as that field is open to us we can, no doubt, provide good careers for those who qualify themselves for such work, even if we are compelled to import pig-iron. But meantime the continued drift of both capital and labour to the colonies and to foreign countries indicates that emigration presents to both the expectation of a higher reward than is obtainable by remaining at home—in other words, that competition is so severe in this country that both capital and labour are running away from it.

The Depreciation of British Home Investments

III.

Reprinted from *The Economic Journal*, June, 1914.

The accompanying tables and diagram bring up to date those which appeared in the June numbers of the *Journal* in 1912 and 1913. An additional line now appears in the diagram obtained from Professor Rist's figures published in the *Revue d'Economie Politique.* This line shows the average mean annual prices (reduced to years' purchase of income) of six Obligations of great French railways, and it affords a most interesting comparison with that of the ten British railway debenture-stocks. While the comparison raises some new questions, it fully supports the conclusions reached in the previous articles that since 1896 British home investments have fallen exceptionally as compared with similar foreign and colonial investments. In 1896 British railway debenture-stocks were selling at much higher prices than the corresponding French stocks; the lines crossed in 1908; and for the last six years the French stocks have been fetching higher prices than the British. The close approximation of this new line to that of British municipal stocks since 1903 is remarkable, and calls for more examination than is here possible. The noteworthy differences between the behaviour of the British and French railway stocks during the period 1875 to 1896 are probably due to political as well as economic causes, some of which are indicated in the diagram. The British railway ordinary line has now come down so close to that of the corresponding foreign and colonial investments as to be practically identical with it. The British municipal line has also again fallen considerably. The old line of foreign and colonial railway obligations —*D*—*D*—has, for the third successive year, fallen; and though the corresponding British line—*A*—*A*—has fallen more rapidly (except in the last year), the fact certainly suggests that whatever may have been the special cause of the exceptional depression of British home investments since 1896 there is in operation some other general cause which is now affecting foreign and colonial stocks similarly.

TABLE I.—(Line A of Diagram).

Dividends and Mean Prices. BRITISH RAILWAY DEBENTURE STOCKS.

—	1876.	1881.	1886.	1891.	1896.	1901.	1906.	1911.	1912.	1913.
1. Caledonian	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00
	104·00	107·5	116·2	126·6	156·9	135·2	121·2	108·00	104·0	102·1
2. Great Eastern	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00
	102·5	112·2	117·0	127·5	154·2	131·0	119·1	106·2	102·4•	99·5
3. Great Northern	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00	3·00	3·00
	105·2	114·7	120·5	100·5	119·1	100·0	92·0	81·6	78·8	77·1
4. Great Western	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00
	105·2	114·7	121·0	131·9	157·7	134·0	123·4	109·5	106·6	103·5
5. Lanc. and Yorkshire	4·00	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00	3·00
	105·2	114·7	118·0	128·0	119·7	100·5	91·8	81·2	78·3	75·6
6. L. and North Western ..	4·00	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00	3·00
	105·7	115·0	121·7	132·7	119·9	103·2	95·8	84·2	80·9	78·8
7. L. and South Western ..	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00	3·00	3·00
	105·7	115·5	120·0	100·2	119·9	101·8	93·0	81·9	79·1	76·7
8. L. Brighton & South Coast	4·50	4·50	4·50	4·50	4·50	4·50	4·50	4·50	4·50	4·50
	114·0	124·0	130·5	143·0	173·7	147·4	133·0	120·2	116·0	112·4
9. (*a*) Manchester Sheffield and Lincs. .. (*b*) L. Tilbury & Southend.. (*c*) Great Central ..	(*a*)4·50	(*b*)4·00	(*b*)4·00	(*b*)4·00	(*b*)4·00	(*b*)4·00	(*b*)4·00	(*b*)4·00	(*c*)4·50	(*c*)4·50
	113·0	107·5	116·0	123·0	154·1	130·5	117·0	106·1	113·0	110·0
10. North British	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00	3·00	3·00
	102·7	107·9	114·7	124·6	116·4	100·0	91·0	80·6	78·3	76·1
Average of the Ten. Dividend, %	4·10	4·05	4·05	3·85	3·55	3·55	3·55	3·55	3·60	3·60
Price, %	106·32	113·37	119·56	123·80	139·16	118·36	107·73	95·95	93·74	91·18
Yield, % ..	3.17.1	3.11.3	3.7·9	3.2.2	2.11.0	3.0.0	3.5.7	3.14.0	3.16.8	3.19.0
Years' Purchase ..	25·9	28·0	29·5	32·2	39·2	33·3	30·3	26·8	26·0	25·3

The Dividends are those paid during the year.

TABLE II.—(Line B of Diagram).

Dividends and Mean Prices. BRITISH MUNICIPAL SECURITIES.

	1896.	1901.	1906.	1911.	1912.	1913.
1. Metropolitan Consolidated (1941) 3% Stock	121·75	101·37	93·75	89·25	87·56	85·50
2. Birmingham Corporation (1947) 3% Stock ...	114·00	100·87	91·87	86·44	83·50	79·37
3. Bristol Irredeemable 3½% Stock	132·75	114·25	104·50	97·75	94·25	89·56
4. Cardiff (1935) 3½% Stock	122·31	106·75	101·37	97·00	95·00	90·56
5. Glasgow Irredeemable 3½% Stock ...	135·25	118·75	107·37	102·12	100·00	96·00
6. Liverpool Irredeemable 3½% Stock ...	136·75	117·75	108·12	100·50	98·87	93·62
7. Manchester Irredeemable 4% Stock	151·12	132·06	123·56	114·69	111·75	105·50
8. Newcastle (1936) 3½% Stock	121·37	106·50	101·25	97·37	95·75	94·12
9. Nottingham Irredeemable 3% Stock ...	117·12	100·37	90·44	87·87	86·44	79·75
10. Bradford (1945) 3½% Stock	123·25	109·31	101·75	97·75	96·87	93·19
Average of the Ten. Dividend, 3·4%						
Price	127·567	110·798	102·398	97·074	94·999	90·717
Yield, per cent.	2.13.4	3.1.4	3.6.5	3.10.1	3.11.7	3.15.0
Years' Purchase	37·5	32·6	30·1	28·5	27·9	26·7

TABLE III.—(Line C of Diagram).

Dividends and Mean Prices. BRITISH RAILWAY ORDINARY STOCKS.

	1896.	1901.	1906.	1911.	1912.	1913.
1. Caledonian ...	5·25 154·56	3·62 124·40	4·00 110·60	3·37 85·75	3·25 78·62	3·37 74·69
2. Great Eastern ...	2·75 98·62	2·62 101·75	3·37 85·19	3·37 71·12	2·87 65·25	2·25 54·00
3. Great Western ...	5·87 173·25	4·00 140·06	5·37 133·19	6·00 126·31	5·37 118·31	6·12 115·87
4. Lancashire and Yorkshire ...	5·12 140·44	3·62 117·87	4·12 105·12	4·62 97·12	4·12 91·56	4·25 87·12
5. L. & N. Western...	6·87 197·69	5·50 169·31	6·37 155·50	6·87 141·12	6·37 134·75	7·00 131·00
6. L. & S. Western ...	6·37 207·25	5·50 176·00	6·00 153·00	6·12 141·37	5·50 128·62	5·87 117·81
7. L. Brighton & South Coast	6·50 185·50	4·75 142·00	5·62 133·62	5·62 115·50	5·00 111·12	5·25 104·56
8. North Eastern "Consols" ...	6·12 173·56	5·75 160·25	5·75 140·94	6·25 130·37	5·75 123·34	6·50 120·25
9. North Staffordshire	4·25 130·25	3·62 107·75	4·25 101·19	4·75 94·44	4·37 89·25	4·50 84·56
10. Taff Vale	3·25 86·50	2·87 71·50	3·87 79·62	4·00 76·00	3·50 73·25	4·25 73·62
Average of the Ten. Dividend, per per cent. ...	5·235	4·185	4·872	5·097	4·610	4·936
Average of the Ten. Price per cent.	154·762	131·089	119·797	107·910	101·407	96·348
Average of the Ten. Yield	3.7.8	3.3.10	4.1.4.	4.14.6	4.10.11	5.2.6
Average of the Ten. Years' Purchase	29·6	31·3	24·6	21·2	22·0	19·5

The dividends are those paid during the year.

TABLE IV.—(Line D of Diagram).

Dividends and Mean Prices. FOREIGN AND COLONIAL RAILWAY OBLIGATIONS.

	1896.	1901.	1906.	1911.	1912.	1913.
1. Northern of France 3% Obligations	95·0	91·1	91·1	84·1	83·4	3·0 80·6
2. Grand Russian (Nicolai) 4% Bonds	99·0	97·1	76·5	89·1	85·5	4·0 85·4
3. (*a*) Pennsylvania 4½ % Gold Bonds ... ... (*b*) Pennsylvania 4% Con. Mort. Bonds... ...	(*a*) 113·0	(*a*) 111·6	(*a*) 104·8	(*a*) 104·1	(*a*) 102·7	(*b*) 4·0 97·6
4. Chic. Mil. and St. Paul 4% Gen. Mort. Bonds	95·2	115·0	111·9	104·1	101·6	4·0 98·1
5. BuenosAyres Gt.Southn. 4% Deb. Stock ...	119·5	111·0	106·2	102·2	101·0	4·0 97·4
6. Central Argentine 4% Deb. Stock	110·1	102·9	105·5	101·4	100·3	4·0 96·6
7. Mexican Railway 6% Perp. Deb. Stock ...	131·1	132·7	144·0	139·6	137·9	6·0 126·5
8. Nitrate Railways 5% 1st Mort. Bonds	88·6	97·7	105·2	105·2	106·0	5·0 105·7
9. Canadian Pacific 4% Con. Deb. Stock ...	105·2	110·1	110·9	104·4	102·2	4·0 98·0
10. Atlantic and St. Lawrence 6% Shares ...	152·5	160·5	157·7	150·1	146·1	6·0 138·0
Average of the ten Dividend,	4·45	4.45	4·45	4·45	4·45	4·40
Average of the ten Price ...	110·92	112·97	111·38	108·43	106·67	102·39
Average of the ten Yield, per cent.	4.0.3	3.18.9	3.19.11	4.2.1	4.3.5	4.5.11
Average of the ten Years' Purchase	24·9	25·4	25·0	24·4	24·0	23·2

TABLE V.—(Line E of Diagram).

Dividends and Mean Prices. FOREIGN AND COLONIAL RAILWAY ORDINARY STOCKS AND SHARES.

	1896.	1901.	1906.	1911.	1912.	1913.
1. Canadian Pacific	2·00	5·00	6·50	10·00	10·00	10·00
	58·06	104·50	184·94	227·69	258·62	233·00
2. Chicago, Milwaukee	4·00	6·00	7·00	7·00	5·00	5·00
and St. Paul ...	72·37	71·31	178·50	122·94	111·00	109·62
3. Illinois Central	5·00	6·00	7·00	7·00	7·00	6·00
	93·69	143·81	179·81	143·44	134·62	119·50
4. New York, Cent. and	4·00	5·00	5·25	5·00	5·00	5·00
Hudson's River	96·06	160·50	145·12	111·50	116·81	103·00
5. Pennsylvania ...	5·00	6·00	6·50	6·00	6·00	6·00
	116·12	154·25	139·12	128·37	126·75	118·37
6. Buenos Ayres Great	5·50	7·00	7·00	7·00	7·00	7·00
Southern ...	130·12	137·75	133·69	121·37	125·25	119·50
7. Buenos Ayres West.	6·00	6·00	7·00	7·50	7·00	7·00
	120·62	104·69	131·12	128·37	127·19	119·00
8. Central Argentine	2·50	3·75	6·00	6·00	6·00	6·00
	64·25	65·87	115·87	107·44	107·31	106·19
9. (*a*) Rio Claro San						
Paulo... ...	14·00	14·00	14·00	13·50	6·00	6·00
(*b*) Great Western of	(*a*)	(*a*)	(*a*)	(*a*)	(*b*)	(*b*)
Brazil ...	231·87	244·68	262·50	257·50	105·31	99·06
10. San Paulo (Braz'n)	14·00	10·00	12·00	13·00	13·00	14·00
	195·62	151·50	207·19	209·56	234·50	248·00
Average of the Ten: Dividend, %	6·200	6·875	7·825	8·200	7·200	7·200
Price ,,	117·878	143·886	167·786	155·818	144·736	137·524
Yield ,	5.5.2	4.15.6	4.13.3	5.5.3	4.19.6	5.4.8
Years' Purchase	19·0	20·9	21·4	19·0	20·1	19·1

The dividends are those paid in the year.

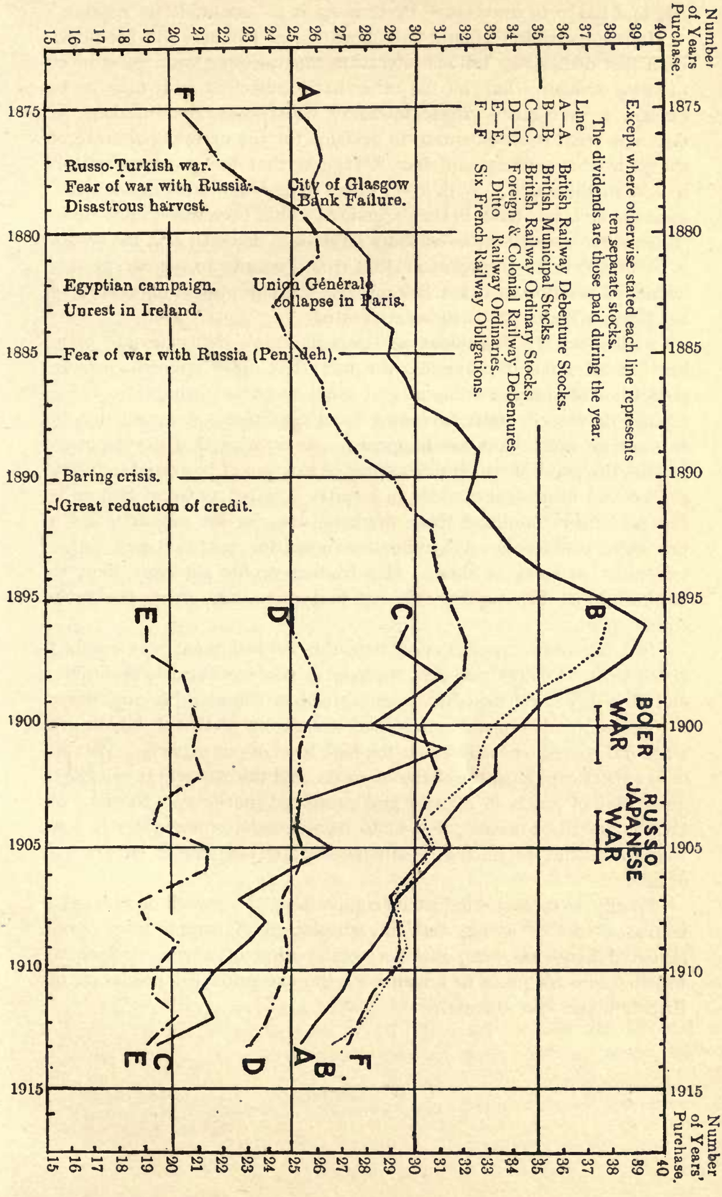
Lord Milner, in his Birmingham address on October 8th last, dealt with the change which we also have been considering. It began, he said, to manifest itself "very gradually at first, but latterly with increasing force." If we confine our attention to the foreign and colonial investments in the diagram, this seems to be a fairly accurate description of what has happened ; but certainly it does not fit what our diagram shows to have been the fate of the British stocks. In their case the change came very suddenly, and its direction downwards has been both rapid and, as regards fixed-interest stocks, generally steady ever since.

There would therefore seem to be ground for believing that there must be two causes at work : the one affecting British home investments exceptionally, and the other (of more recent appearance) affecting all, though to a lesser extent.

Lord Milner draws attention to the sudden and general development of the industrial resources of the world that is characterising the present century. He mentions Germany, Canada and the other self-governing Dominions of the British Empire, South America, Africa, Russia, India, Japan, and "even China," as alike needing capital for that purpose, and he crystallizes the resultant economic movement—widely

SOME BRITISH HOME INVESTMENTS COMPARED WITH SOME SIMILAR FOREIGN AND COLONIAL INVESTMENTS.

Average Mean Annual Prices (reduced to number of years' purchase of Dividends); see tables on pp. 20, 21, 22.



felt and likely to continue —by terming it a "scramble for capital."

It is impossible to doubt that Lord Milner has here put his finger on a fact demanding full consideration when dealing with the subject of these articles; but, on the other hand, sufficient as it may be to explain a movement visible in many widely-separated markets, it does not seem itself adequate to account for the exceptional state of things in this country nor does it suggest that the previous articles require modification. With every effort to discover errors in the statements of fact, and flaws in such argument as has been based upon those statements, no such errors or flaws have been detected and the writer is confirmed in his hypothesis: that it is primarily to the exceptional industrial position of Great Britain that the exceptional depression of her home investments is to be attributed.

Almost wholly dependent as Great Britain's industries are upon her limited mineral resources, the fact that other countries are in possession of superior mineral and other resources, which are being rapidly developed under favouring fiscal conditions, seems enough to account for much that has happened. As soon as that development reaches the point at which the surplus production of protected industry can be sold in neutral markets, a country situated as Great Britain is can no longer command those markets, nor can she negotiate for a privileged position in any of them—or even for most-favoured-nation treatment in some of them. Her trading profits therefore tend to diminish, and her capital tries to find other and more profitable employment.

It now seems unquestioned that this critical point was reached about 1896. Competition then rendered neutral markets less profitable, and British capital has since gone abroad in considerable quantities.

The contemporaneous unrest and emigration of British labour are a natural consequence, and so is the high level of our exports. We can only export capital in the shape of goods, and the struggle to sell large quantities of goods in neutral and protected markets in the face of keen competition means, if it is to be successful, comparatively low wages at home, producing dissatisfaction and consequent emigration of labour.

Finally, exceptional industrial competition, the growth of taxation, increased cost of living, and the withdrawal of capital from once-favoured home markets, make a combination of adverse influences which seems adequate to account for the exceptional depreciation of British home investments.

The Depreciation of British Home Investments

IV.[1]

REPRINTED FROM *The Economic Journal*, JUNE, 1917.

THE war has both accelerated the depreciation considered in the three previous articles, and made it impossible to continue its examination on just the old lines. Minimum prices imposed upon the stock markets of Great Britain from August, 1914, to July, 1916, have, of course, rendered " average mean annual prices " of most of the investments unobtainable for those years. But now that these fetters have been removed it is possible to make use of present average prices instead, and to reduce them to number of years' purchase of dividends. As this gives quite a fair comparison with the former figures, it has been done in the accompanying tables as on December 31st, 1916, and the resultant years' purchase has been inserted in the diagram. The lines have, as might be expected, again fallen heavily. They are now nearer together, and show that the old preference for British railway debenture stocks and municipal stocks, where it has not disappeared, is less pronounced than ever. The difference between the former (line *A*) and the similar foreign and colonial issues covered by line *D* is now less than one year's purchase. In other words, in 1896 the yield of *A* was £2 11*s*. per cent. against £4 0*s*. 3*d*. of *D*—a difference of £1 9*s*. 3*d*. ; whereas now the respective yields are £5 2*s*. 5*d*. and £5 7s.—a difference of 4*s*. 7*d*. only.

The six French Railway Obligations (Professor Rist's line *F*) in 1896 yielded £3 2*s*. 10*d*. per cent. as compared with the British yield of £2 11*s*. per cent. They now yield £4 8*s*. 6*d*. only, as compared with the British £5 2*s*. 5*d*. A higher yield of 11*s*. 10*d*. has become a lower one of 13*s*. 11*d*.—a very noteworthy difference.

The depreciation, therefore, of British railway *debenture* stocks since 1896 is much greater than that of the corresponding foreign and colonial investments, and the gradients continue steeper. When, however, the yield of British railway *ordinary* stocks (line *C*) is compared with that of similar foreign and colonial ordinary stocks (line*E*) the changes are even more remarkable ; for whereas in 1896 the respective yields were £3 7*s*. 8*d*. and £5 5*s*. 2*d*., they are now £6 10*s*. 4*d*. and £5 11*s*. 7*d*., showing that the preference, formerly very great, for

[1] The previous articles appeared in the June numbers of *The Economic Journal* of 1912, 1913 and 1914. This article was written in February, but too late for the March number.

TABLE I.—(Line A of Diagram).

Dividends and Mean Prices. BRITISH RAILWAY DEBENTURE STOCKS.

	1876.	1881.	1886.	1891.	1896.	1901.	1906.	1911	1913.	1916. Dec. 31.
1. Caledonian ..	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00
	104·00	107·5	116·2	126·6	156·9	135·2	121·2	108·00	102·1	78·00
2. Great Eastern	4·00	4·00	4·00	4·00	4·00	4.00	4·00	4·00	4·00	4·00
	102·5	112·2	117·0	127·5	154·2	131·0	119·1	106·2	99·5	74·00
3. Great Northern	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00	3·00	3·00
	105·2	114·7	120·5	100·5	119·1	100·0	92·0	81·6	77·1	61·00
4. Great Western	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00	4·00
	105·2	114·7	121·0	131·9	157·7	134·0	123·4	109·5	103·5	82·00
5. Lanc. and Yorkshire ..	4·00	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00	3·00
	105·2	114·7	118·0	128·0	119·7	100·5	91·8	81·2	75·6	59·00
6. L. and North Western	4·00	4·00	4·00	4·00	3·00	3·00	3·00	3·0	3·00	3·00
	105·7	115·0	121·7	132·7	119·9	103·2	95·8	84·2	78·8	62·00
7. L. and South Western ..	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00	3·00	3·00
	105·7	115·5	120·0	100·2	119·9	101·8	93·0	81·9	76·7	60·00
8. L. Brighton and South Coast	4·50	4·50	4·50	4·50	4·50	4·50	4·50	4·50	4·50	4·50
	114·0	124·0	130·5	143·0	173·7	147·4	133·0	120·2	112·4	86·00
9. (*a*) Manchester, Sheffield and Lincs. .. (*b*) L. Tilbury and Southend (*c*) Great Central	(*a*)4·50	(*b*)4·00	(*b*)4·00	(*b*)4·00	(*b*)4·00	(*b*)4·00	(*b*)4·00	(*b*)4·00	(*c*)4·50	(*c*)4·50
	113·0	107·5	116·0	123·0	154·1	130·5	117·0	106·1	110·0	83·00
10. North British	4·00	4·00	4·00	4·00	3·00	3·00	3·00	3·00	3·00	3·00
	102·7	107·9	114·7	124·6	116·40	100·0	91·0	80·6	76·1	58·00
Average of the Ten. Dividend, %	4·10	4·05	4·05	3·85	3·55	3·55	3·55	3·55	3·60	3·60
Price, % ..	106·32	113·37	119·56	123·80	139·16	118·36	107·73	95·95	91·18	70·30
Yield, %	3.17.1	3.11.3	3.7.9	3.2.2	2.11.0	3.0.0	3.5.7	3.14.0	3.19.0	5.2.5.
Years' Purchase, &c.	25·9	28·0	29·5	32·2	39·2	33·3	30·3	26·8	25·3	19·5

The dividends are those paid during the year.

TABLE II.—(Line B of Diagram).

Dividends and Mean Prices. BRITISH MUNICIPAL SECURITIES.

	1896.	1901.	1906.	1911.	1913.	1916, Dec. 31.
1. Metropolitan Consolidated (1941) 3% Stock	121·75	101·37	93·75	89·25	85·50	67·00
2. Birmingham Corporation (1947) 3% Stock ...	114·00	100·87	91·87	86·44	79·37	60·50
3. Bristol Irredeemable 3½% Stock	132·75	114·25	104·50	97·75.	89·56	69·50
4. Cardiff (1935) 3½% Stock	122·31	106·75	101·37	97·00	90·56	75·50
5. Glasgow Irredeemable 3½% Stock	135·25	118·75	107·37	102·12	96·00	72·00
6. Liverpool Irredeemable 3½% Stock	136·75	117·75	108·12	100·50	93·62	72·00
7. Manchester Irredeemable 4% Stock	151·12	132·06	123·56	114·69	105·50	79·50
8. Newcastle (1936) 3½% Stock...	121·37	106·50	101·25	97·37	94·12	75·00
9. Nottingham Irredeemable 3% Stock ...	117·12	100·37	90·44	87·87	79·75	61·50
10. Bradford (1945) 3½% Stock...	123·25	109·31	101·75	97·75	93·19	76·00
Average of the Ten Dividend, 3·4.% ...						
Price ... % ...	127·567	110·798	102·398	97·074	90·717	70·850
Yield ... % ...	2.13.4	3.1.4	3.6.5	3.10.1	3.15.0	4.16.0
Years' Purchase ...	37·5	32·6	30·1	28·5	26·7	20·8

TABLE III.—(Line C of Diagram).

Dividends and Mean Prices. BRITISH RAILWAY ORDINARY STOCKS.

	1895.	1901.	1906.	1911.	1913	1916. Dec. 31.
1. Caledonian	5·25 154·56	3·62 124·40	4·00 110·60	3·37 85·75	3·37 74·69	3·37 49·00
2. Great Eastern	2·75 98·62	2·62 101·75	3·37 85·19	3·37 71·12	2·25 54·00	2·50 37·00
3. Great Western	5.87 173·25	4·00 140·06	5·37 133·19	6·00 126·31	6·12 115·87	5·75 90·50
4. Lancashire & Yorkshire ..	5·12 140·44	3·62 117·87	4·12 105·12	4·62 97·12	4·25 87·12	4·50 67·50
5. L. and North Western ..	6·87 197·69	5·50 169·31	6·37 155·50	6·87 141·12	7·00 131·00	6·00 98·00
6. L. and South Western ..	6·37 207·25	5·50 176·00	6·00 153·00	6·12 141·37	5·87 117·81	5·50 82·50
7. L. Brighton & South Coast	6·50 185·50	4·75 142·00	5·62 133·62	5·62 115·50	5·25 104·56	5·00 78·00
8. North East. "Consols" ..	6·12 173·56	5·75 160·25	5·75 140·94	6·25 130·37	6·50 120·25	6·50 102·25
9. North Staffordshire ..	4·25 130·25	3·62 107·75	4·25 101·19	4·75 94·44	4·50 84·56	4·62 66·00
10. Taff Vale	3·25 86·50	2·87 71·50	3·87 79·62	4·00 76·00	4·25 73·62	3·50 54·00
Average of the Ten. Dividend, per cent. ..	5·235	4·185	4.872	5.097	4·936	4·724
Average of the Ten. Price " ..	154·762	131·089	119.797	107·910	96·348	72·475
Average of the Ten. Yield " ..	3.7.8	3.3.10	4.1.4	4.14.6	5.2.6	6.10.4
Average of the Ten. Years' Purchase ..	29·6	31·3	24·6	21·2	19·5	15·3

The dividends are those paid during the year.

TABLE IV.—(Line D of Diagram).

Dividends and Mean Prices. FOREIGN AND COLONIAL RAILWAY OBLIGATIONS.

	1896.	1901.	1906.	1911.	1913.	1916. Dec. 31.
1. Northern of France 3% Obligations	95·0	91·1	91·1	84·1	3·0 80·6	3·0 57·5
2. Grand Russian (Nicolai) 4% Bonds	99·0	97·1	76·5	89·1	4·0 85·4	4·0 65·5
3. (*a*) Pennsylvania 4½% Gold Bonds .. .. .. (*b*) Pennsylvania 4% Con. Mort. Bonds	(*a*) 113·0	(*a*) 111·6	(*a*) 104·8	(*a*) 104·1	(*b*)4·0 97·6	(*b*) 4·0 105·0
4. Chic. Mil. and St. Paul 4% Gen. Mort. Bonds ..	95·2	115·0	111·9	104·1	4·0 98·1	4·0 98·0
5. Buenos Ayres Gr. Southern 4% Deb. Stock ..	119·5	111·0	106·2	102·2	4·0 97·4	4·0 75·0
6. Central Argentine 4% Deb. Stock	110·1	102·9	105·5	101·4	4·0 96·6	4·0 74·0
7. Mexican Railway 6% Perp. Deb Stock	131·1	132·7	144·0	139·6	6·0 126·5	6·0 59·5
8. Nitrate Railways 5% 1st Mort. Bonds	88·6	97·7	105·2	105·2	5·0 105·7	5·0 102·5
9. Canadian Pacific 4% Con. Deb. Stock	105·2	110·1	110·9	104·4	4·0 98·0	4·0 79·0
10. Atlantic and St. Lawrence 6% Shares	152·5	160·5	157·7	150·1	6·0 138·0	6·0 106·5
Average of the Ten. Dividend	4·45	4·45	4·45	4·45	4·40	4·40
Average of the Ten. Price per cent. ..	110·92	112·97	111·38	108·43	102·39	82·25
Average of the Ten. Yield, per cent. ..	4.0.3	3.18.9	3.19.11	4.1.2	4.5.11	5.7.0
Average of the Ten. Years' Purchase ..	24·9	25·4	25·0	24·4	23·2	18·7

TABLE V.—(Line E of Diagram).

Dividends and Mean Prices. FOREIGN AND COLONIAL RAILWAY ORDINARY STOCKS AND SHARES.

	1896.	1901.	1906.	1911.	1913.	1916 Dec. 31
1. Canadian Pacific	2·00	5·00	6·50	10·00	10·00	10·00
	58·06	104·50	184·94	227·69	233·00	174·00
2. Chicago, Milwaukee and St. Paul	4·00	6·00	7·00	7·00	5·00	5·00
	72·37	71·31	178·50	122·94	109·62	96·00
3. Illinois Central ...	5·00	6·00	7·00	7·00	6·00	6·00
	93·69	143·81	179·81	143·44	119·50	111·00
4. New York Central	4·00	5·00	5·25	5·00	5·00	5·00
	96·06	160·50	145·12	111·50	103·00	108·00
5. Pennsylvania ...	5·00	6·00	6·50	6·00	6·00	6·00
	116·12	154·25	139·12	128·37	118·37	119·00
6. Buenos Ayres Great Southern	5·50	7·00	7·00	7·00	7·00	4·50
	130·12	137·75	133·69	121·37	119·50	79·00
7. Buenos Aires West'n... ...	6·00	6·00	7·00	7·50	7·00	5·00
	120·62	104·69	131·12	128·37	119·00	80·00
8. Central Argentino	2·50	3·75	6·00	6·00	6·00	4·00
	64·25	65·87	115·87	107·44	106·19	66·00
9. (*a*) Rio Claro Sao Paulo ...	14·00	14·00	14·00	13·50	6·00	0·00
(*b*) Great Western of Brazil ...	(*a*) 231·87	(*a*) 244·68	(*a*) 262·50	(*a*) 257·50	(*b*) 99·06	(*b*) 47·50
10. San Paulo (Brazilian)	14·00	10·00	12·00	13·00	14·00	13·33[1]
	195·62	151·50	207·19	209·56	248·00	174·00
Average of the Ten: Dividend, per cent.	6·200	6·875	7·825	8·200	7·200	5·880
Price ,,	117·878	143·886	167·786	155·818	137·524	105·450
Yield ,,	5.5.2	4.15.6	4.13.3	5.5.3	5.4.8	5.11.7
Years' Purchase	19·0	20·9	21·4	19·0	19·1	17·9

The dividends are those paid in the year.

[1] 10 per cent. free of income tax.

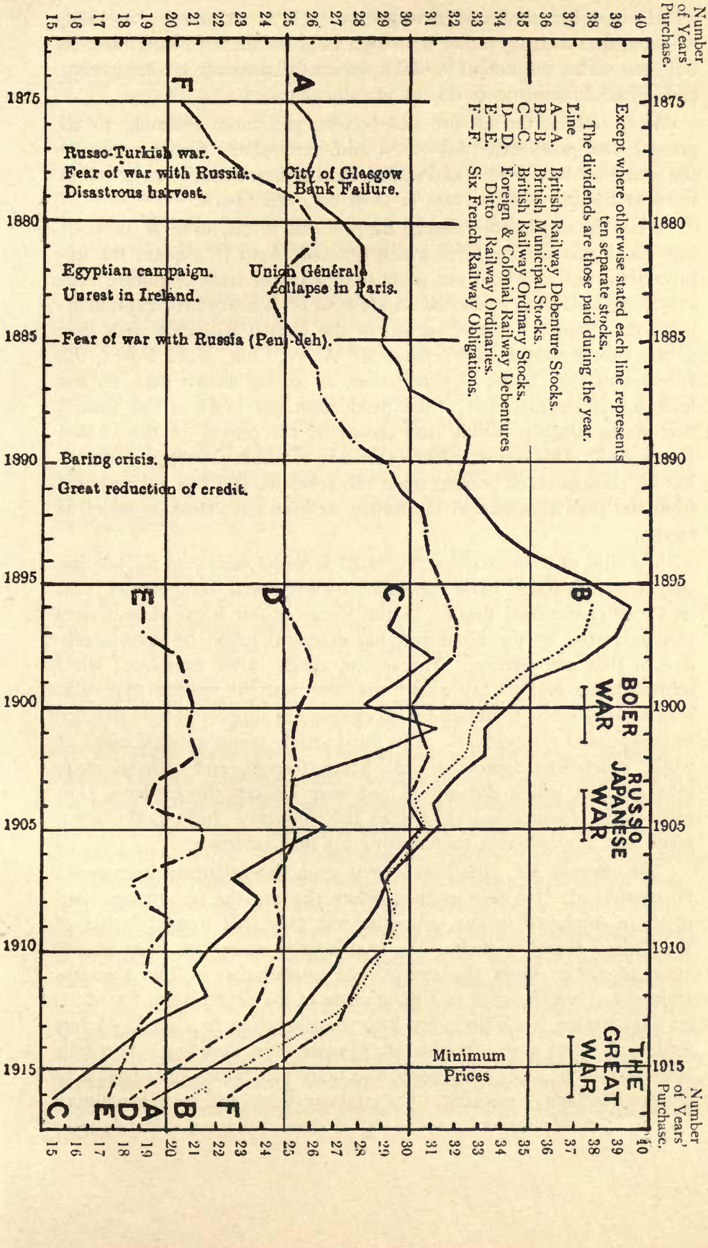
British railway ordinaries has entirely disappeared, and that the positions are reversed. During the past three years the dividends of the British stocks have been steadier than those of the foreign and colonial stocks. The latter have fallen from 7·2 per cent. to 5·88 per cent., against a fall of the former from 4·936 per cent. to 4·724 per cent. only. Thus the depreciation of the British stocks, measured in years' purchase of dividends, is far greater than, while that of the corresponding foreign and colonial stocks is not so great as, the diminution of the dividends. The prices are those of the London Stock Exchange, so that a high Bank-rate and heavier income-tax affect both sets of securities in the same way.

Why, then, are all the British home investments so much more seriously depressed than the others ?

This is the same problem as the writer had to deal with in his previous articles, and it remains the same to-day as it was before the war. We have not only to deal with a very large adverse movement

SOME BRITISH HOME INVESTMENTS COMPARED WITH SOME SIMILAR FOREIGN AND COLONIAL INVESTMENTS.

Average Mean Annual Prices (reduced to number of years' purchase of Dividends); see tables on pp. 26, 27, 28.



of standard British home investments, such as an investor in 1896, who aimed at security rather than high yield, would have been likely to buy, but with a movement in which, generally speaking, similar foreign and colonial investments do not equally share.

As it stands, the picture has become still more alarming to all present and prospective investors, and particularly disconcerting to the actual holders of these and similar British investments who acquired them at the prices of twenty, or even ten, years back.

While the war has not altered the problem, it has, however, brought into great prominence facts which not only help to explain the depreciation, but also hold out promise of a better state of things. An article in the *Times Financial Supplement* of January 5th, 1914, compares the pre-war national output of the United Kingdom with that of the United States, and reports Mr. A. W. Flux, M.A., F.S.S., the Director of the Census of Production, as having shown that, on the broadest statistical basis, "the production per head in the United States was roughly double that shown by the census for the United Kingdom." This statement, the accuracy of which cannot be doubted, has an all-important bearing upon the problem, and has not received from the present writer in his former articles the attention which it merits.

The first of these articles presented a *primâ facie* case for holding that our industries were exposed to exceptional competition, and that the exceptional decline in the value of our home investments (demonstrated by the accompanying diagram) might be very largely due to that competition. The second article, after examining what other writers had to say about the first without finding any valid reason for altering it, adduced fresh evidence in support of the existence of exceptional competition. The third article found another cause at work, which was depressing alike home, foreign, and colonial stock markets, but which did not in any way weaken the evidence that exceptional competition existed in this country. Indeed, the argument was strengthened by following up that evidence.

The effect of Mr. Flux's statement upon this argument has now to be considered. He tells us that before the war the output per head of those employed in our industries was only half (roughly) that of the United States in theirs. To enable us to grasp the effect of this state of things upon the exceptional competition in this country, which has been regarded as a main cause of the depreciation for which an explanation is sought, very little consideration is needed. A low output increases cost of production in more ways than one. It entails larger premises, more machinery, and more supervision, in addition to greater numbers of workers. The larger premises and more machinery require more capital and involve higher rates and taxes. More supervision and greater numbers of workpeople involve extra wages. Raw materials and fuel, too, may be made more costly, in the same way, in proportion to the restrictions upon output affecting them, and the larger premises and more machinery likewise cost more if the industries producing them are in the same toils. All this additional burden—interest, wear and tear, rates and taxes, wages and cost of raw materials and fuel—enhances cost of production. The selling price of the product must be increased correspondingly. The industry concerned is thus handicapped when in open competition with other similar enterprises, however geographically distant, which enjoy better conditions.

When, therefore, the Director of the Census of Production tells us that on the broadest statistical basis our pre-war production per head of those employed in our industries was only half that of the United States, it surely follows that our industries were hopelessly handicapped, and that our standing as regards competition was exceptionally bad. The argument of the previous articles based upon competition is thus immeasurably strengthened. Protective duties, subsidies, and bounties abroad may have borne heavily upon our home industries, but the self-inflicted policy of restriction of output was probably an even heavier burden for them to carry.

At this distance of time a word may be needed to establish the connection between burdened industries and depreciation of investments. In the previous articles all the causes to which that depreciation has been attributed were carefully examined and the conclusion was reached that "exceptional industrial competition, the growth of taxation, increased cost of living, and the withdrawal of capital from once-favoured home markets make a combination of adverse influences which seem adequate to account for the exceptional depreciation of British home investments." Space does not permit a repetition of the reasons for rejecting other alleged causes; it must suffice to say here that, on the one hand, no one has controverted those reasons, and, on the other, that their soundness has been recognised in very competent quarters. Mr. Flux having helped us to see more clearly why our industries could not compete effectively with rival industries, and the war having demonstrated the effect of a low level of output upon the nation's military power and the paramount necessity of raising it to render victory in the field possible, it should now be easy to see how impossible it was, before the war, to expect our investments to maintain their values. Value depends on supply and demand, and when (as was the case before the war) the main source of demand for investments—industrial profit—was in many quarters so grievously burdened; when taxation and cost of living were rising at home and higher yields were obtainable abroad on securities which were maintaining their values, no one need wonder at the pre-war decline of our home investments. The war has revived our industries, but its cost has drained the stock markets of money, and high-yielding Government securities have come into competition with all other forms of investment and driven most of them down still further.

If the war had not told us more, the outlook would have been dark indeed. But by the splendid response of the nation to the call for more and ever more munitions of war, it has been proved that our former low output can be raised, and very quickly raised too.

Our output of munitions is increasing so rapidly that we may hope soon to do without outside help. Indeed, we appear to be nearing the enviable position of being able (with Canada's assistance) to supply the munition needs of our Allies, as well as our own, without the other help hitherto required. If we can do this while we are maintaining an Army of 5,000,000 men drawn from the industries of the Empire—most of whom are from Great Britain and Ireland—we are certainly increasing our output per head, and can see that we need never fall short of that of our industrial rivals if we do our best.

The war has thus brought us an illuminating and encouraging demonstration—illuminating because it shows that in wartime danger and disaster attend the mistaken policy of a restricted output; encouraging because it proves the remedy to be in our own hands.

The remedy for our pre-war industrial difficulties, therefore, lies ready to our hand, and its successful application awaits only the mutual confidence, goodwill, and effort of British employers and employees. They are dependent upon one another. Their real interests are identical, but false doctrines and unsound policies have hitherto tended to keep them apart, with the not surprising result that legislative effort has failed to bring them together. If they will only come together in a spirit of mutual confidence and understanding, they have it in their power to organise the future industry of the country on the basis of an unrestricted output with due and proper wages, and to command such legislation as shall secure them access to the markets of the world. The resources of the Empire are ample and the after-war needs of the world will be great. Industrial prosperity will attend a wise industrial peace at home, for, with an abundant demand for what we produce, our competitors, who were already working at full power before the war, will not be able to increase their peace output as we shall.

Our home investment markets, mainly dependent as they are on a supply of surplus capital which industry alone is capable of maintaining, will respond to any increase of industrial prosperity; and as those markets recover from the depression of the past twenty years they will, in their turn, enable industry to obtain, on less onerous terms, the capital without which it cannot live.

We are thus led to the conclusion that the exceptional depreciation of British home investments, with which these articles have been dealing, has been traced to its causes, the chief of which is exceptional industrial restriction of output. Industry cannot thrive while output is restricted as it has been in this country. The census of production explains the comparative decline of British industry, of which, before the war, the statistician was always telling us. The remedy, too, has become plain.

Mr. Lloyd George, the Premier of Great Britain and Ireland, has summed up the position very ably. Speaking at the Guildhall on January 11th he said :—

"Before the war we had a good many shortcomings in our business, our commerce, and our industry. The war is setting them all right in the most marvellous way. You ask great business men like my friend Lord Pirrie, whom I see there in the corner, what is going on in the factories throughout Great Britain and Ireland. Old machinery scrapped, the newest and best set up; slipshod, wasteful methods also scrapped, hampering customs discontinued; millions brought into the labour market to help to produce who before were mere consumers. . . . We are a different people."

On February 23rd, however, in the House of Commons, when dealing with the shortage of tonnage of our mercantile marine and the urgent need of shipbuilding, he said :—

"I am convinced, after a great deal of examination of the problem, and hearing what has been said by both employers and working men, that the output can be very considerably increased by an alteration of methods."

So that restriction of output of what is of vital importance and of urgent need, though reduced and we may hope dying, has not ceased to exist even in this hour of the Empire's greatest danger.

Is further evidence as to the nature and solution of our problem needed? I hardly think so. Though my diagram is both alarming and disconcerting, and the industrial position not free from anxiety, signs, as we have seen, are not wanting of a kind calculated not only to reduce alarm, but to inspire hope. The facts shortly dealt with in this article show that if our industries adopt, and continue, the unselfish policy of the highest possible output per head—which, we may believe, will bring us the reward of ultimate victory in this awful war—we may confidently look forward to a time of prosperity after the war in which every person in the Empire will share, however high or low his lot. The lines in this diagram which, mainly under the malign influence of restricted output, have been falling so ominously since 1896, will then begin to rise again, and, as industrial prosperity increases, helped as it will be by lower rates of interest, we may reasonably expect to see them regain much of the ground lost during the past twenty years.

February, 1917.

Causes of Inflation of Credit

Trade and an advance in the Bank Rate

Restriction of output must be abandoned

The Birmingham Post, NOVEMBER 7, 1919.

MR. GOODENOUGH, Chairman of Barclay's Bank (Ltd.), has raised a very useful discussion on the subject of sound currency, in the course of which the importance of clear thinking becomes manifest. Without it we are in danger of attributing the "inflation of credit," to which the higher prices of commodities are due, to the wrong cause. Inflation of credit may be due to several causes, among them to an excess of legal currency; but it is to heavy Government borrowing that we owe the present inflation of credit in this country. The issue of currency in the shape of notes in excess of the demand for such currency undoubtedly causes an inflation of credit, but as long as notes are issued merely to meet the current needs of the community no such inflation is caused. The demand for currency may, indeed, arise from inflation of credit caused by heavy Government borrowing, such as the war has rendered inevitable here, but the inflation is due, not to the issue of currency notes in response to that demand, but to the Government borrowing. The amount of the currency notes now in circulation may seem so large as to be excessive, but if we bear in mind that sovereigns and half-sovereigns have been withdrawn, and that wages and wage-earners have greatly increased, it will hardly appear so. On the other hand, the heavy borrowing is quite a sufficient cause for the inflation of credit, and only harm will be done by attributing it to the currency notes.

When we come to the steps needed to restore our old gold standard, now in abeyance, it is of course necessary to remember Gresham's Law and to provide against the driving of gold out of circulation by the existence of an inferior currency. The currency notes will either have to be made—like bank notes—promises to pay in gold, or be made—like our silver coinage—a token currency, legal tender only to a limited amount. The popularity of the small notes seems to be established, and it is questionable whether gold will ever come back into circulation to anything like its former extent so long as a sufficient supply of clean currency notes is obtainable. It is, therefore, quite possible that a comparatively small gold backing will be sufficient to keep a very large proportion of these small notes in circulation if only the dirty ones are regularly replaced by clean ones. Mr. Goodenough's suggestion that there should be at least 10% of gold held in reserve for the small notes is sound, and 10% may not be enough, but there is good ground for holding that the percentage need not be high.

Effect of an Increase in the Bank Rate.

His further view that even a comparatively small restriction of undue credit expansion would tend to reduce commodity prices and benefit our export trade is very encouraging. What he calls "the time-honoured and time-proven methods" of the Bank of England will have been brought into operation by the 10% reserve for the small notes; and it would seem quite likely that a very moderate advance of the bank rate would suffice to revive its old efficacy in stimulating exports, and thus bringing gold into the country to an extent sufficient to enable us to re-establish the gold standard. The bank rate has now stood at 5% for more than 2½ years, during which period our industries have not flagged, and we see them at the present time paying much higher rates for capital wherewith to extend their enterprises.

There is, therefore, no reason to fear that trade would be injured by a moderate advance of the bank rate. On the contrary, if a restoration of our gold standard should follow, trade would benefit. The "undue credit expansion," which—no doubt truly—Mr. Goodenough regards as a cause of high prices of commodities, would lose somewhat of its "undueness" by a restoration of our gold standard, since the purchasing power of our present paper currency would be put upon a gold basis, and less of it would be needed. The "credit" which the possessors of the notes have would not be lessened by the number issued being fewer, but its "undueness" would be so far removed.

To sum up what has been said—sound currency does not require the calling in of the small notes, but such a reserve of gold behind the notes, large and small, in circulation as will justify the cancelling of the prohibition against the export of gold. To an onlooker with no personal axe to grind, it would seem that the time has come to try the effect of a higher bank rate.

The Restriction of Output.

To turn to another aspect of the subject. The inflation of credit, and the high price of commodities to which it has given rise, will disappear when the money borrowed for war purposes has become absorbed in industry, trade, and commerce; but this cannot happen in regard to our internal industry, trade, and commerce while our industrial output is unduly restricted. The exceptional restriction of output, to which the trade unions of this country are committed, is preventing the money from finding useful channels of employment in Great Britain. It discourages enterprise and raises the cost of production, and thus blocks those channels, rendering our internal industry, trade, and commerce more or less speculative. Again, it retards the restoration of the gold standard by restricting exports, which alone bring us gold, and thus it helps to keep our paper currency unsound. Sound currency, cheaper commodities, and industrial prosperity alike, therefore call for the abandonment of restriction of individual output.

A word may be added on the question of capital. Capital, as Lord Inchcape so well says, is seed-corn reserved to beget a harvest. Just as our food supplies depend upon the non-consumption of the seed-corn required for the next harvest, so do our supplies of other things depend upon our not consuming all we produce. Our industries cannot stand still. They must advance or go back. We must save or we shall starve, industrially. The saving is "capital," and the community, including the workers, are indebted to the savings of the thrifty—present as well as past—for the abundant means they possess to enable them, by industry, to go on prospering.

But, failing industry, capital must shrink in value or go elsewhere for employment. The shrinkage has begun and employment elsewhere is clamouring for British capital. There is no time to lose if our industries are to continue prosperous. Individual output must increase, and trade union restrictions should be removed.

[The above article was written before the announcement of the Bank Rate yesterday.
—ED. B.P.]

The Gold Value of our Currency

How it may be improved

Need for acceleration of output

The Birmingham Post, DECEMBER 29, 1919.

THE discussion on the second reading of the Consolidated Fund (Appropriation) Bill affords an opportunity for reconsidering the alleged inflation of our currency in the light of such fresh information as may be gleaned therefrom. Mr. A. M. Samuel told the House that "credit in the banks" now stands at between £1,750,000,000 and £2,000,000,000, as compared with £1,000,000,000 before the war, and the Chancellor of the Exchequer said he hoped the limitation of the "fiduciary" part of the currency notes, suggested by the Currency Committee, would not become a fixed maximum. As far as he was concerned, he would treat it, not as a figure to which they ought to go as near as they could, but as a figure that they should keep as much below as they could. These two seem to be the only statements, bearing on the question of currency inflation, which give us fresh facts to go upon. The first—that "credit in the banks" is greater by £750,000,000 to £1,000,000,000 sterling than before the war—should help us to see the comparatively small amount of the currency notes, and should be useful when we try to estimate the extent of the alleged "inflation" of the latter. The second—that the Treasury will keep the "fiduciary" part of the currency notes as much below £320,000,000 as they can—supports the contention that there is in fact no currency inflation at all in this country; that, in other words, currency notes are only issued in response to the demands of the community for the only possible means (now that gold is withdrawn from circulation) of paying its debts. Taking the gold in circulation before the war as £184,000,000—the only inference possible from the Budget estimate in April last—and allowing for the enormous subsequent increase in wages, wage-earners, pensioners, etc., and in commodity prices, we must admit that even the £348,000,000 notes now in circulation can be little, if any, more than the community must have to enable business to be carried on. To reduce the amount materially would create mischief everywhere. The dictionary tells us that to inflate the currency is "to raise it above the just amount," and justice certainly requires that the currency should be sufficient for the current needs of the community. It is by this process of reasoning that one reaches the conclusion that there is no real inflation of the currency in this country. The needs of the community may be inflated, but the currency is not.

CHANGED VALUE OF GOLD.

We may now turn to the precious metal, in terms of which the value of everything all over the world is generally measured, and reconsider the effect of the war upon it. We are told there is some £4,000,000,000 of gold in the world, and that the mines are still producing £78,000,000 per annum. It may be useful to have these figures before us as we proceed. Before the war, with low rates of freight and insurance, gold moved freely from market to market and kept its price, in convertible currency, close to the coin value. The coin value, of course, depends on the quantity of gold in the standard gold coin. The war having imposed high freight and insurance charges on the movement of the metal and brought about the withdrawal of gold coin from circulation in many countries, its value, measured in the now inconvertible currencies, has altered. These changes are interesting to the student, whether he concerns himself with their causes or with their consequences.

The first thing is to ascertain the extent of the changes, and to get at this one must select a market where both gold and currencies are dealt in. No market possesses this quality in greater measure than London. The coin value with which we wish to compare the present currency value is as follows:—The British gold pound sterling contains 1 ounce of fine gold in £4 5*s.*; the United States gold dollar has 1 ounce in 20·655 dollars; the French gold franc in 107·185 francs; and the German gold mark in 86·8275 marks. In London on December 10th (at the then current paper rates of exchange, viz., 3·79 dollars, 44 francs, and 190 marks for the £1 sterling) 1 ounce of fine gold cost, in London, £5. 8*s.* or 20·417 dollars, or 237·6 francs, or 1,026 marks. The following table shows the changes that the above figures represent:—

PAPER VALUE IN LONDON OF 1 OZ. OF FINE GOLD.

	Pre-War.	Present.	Increase or Decrease
United States	20·655	20·417	— 2%
United Kingdom	£4 5s.	£5 8s.	+ 27%
French	107·185 frs.	237·6 frs.	+ 122%
German	86·8275 mks.	1,026 mks.	+ 1081%

We here see that the cost of gold in American dollars has remained practically stationary. This is because the dollar notes are still convertible. In the other countries' currency (now inconvertible) it has advanced, British 27%, French 122%, and German 1,081%. The war is, of course, the prime cause of the increases, but when one asks why there are such great differences the answer is a complex one. Trade dislocation is to be taken into the reckoning, and many other disturbances, including world-wide industrial unrest. But the financial position in which the late belligerents find themselves is undoubtedly the resultant of all the causes, and we may concentrate on it. The additional financial burden left by the war, distinguishing between loans and currency commitments, is the test.

Currency and Loan Increases.

The currency commitments are no doubt accountable for the greater part of the increased cost of gold, measured in currency, since the holders of the metal are naturally unwilling to accept, in exchange for it, paper which brings in no interest, and the conversion of which into commodities is a more or less distant possibility. But neither will they lend it unless satisfied as to the solvency of the borrower. The recent Parliamentary paper, Cmd. 434, gives us both currency and loan increases. In round figures they are as follows :—

Currency and Public Debt Increases during the War :

	Currency Increases.	Public Debt Increases.
	£	£
United States	380,000,000 *	55·5 per head
United Kingdom	330,000,000 †	157·5 ,,
French	1,200,000,000 †	114·4 ,,
German	2,000,000,000 †	128·6 ,,

The convertibility of the United States paper accounts for the stability of its gold price. Leaving for the present the consideration of the position of the United Kingdom, let us examine that of France and Germany.

The smaller increase of the debt of France compared with that of Germany enables us to say at once that it does not account for the great difference in the respective paper-prices of gold. Neither does the increase of currency. We must, therefore, look for other causes, and we may find them in the fact that France has not attacked and mercilessly ravaged her sources of raw material and her customers as Germany has ; nor has she burdened herself with the payment of an enormous indemnity. It is this which accounts for the German mark having, as Mr. Lloyd George says, " gone out of sight," and, in its turn, for the unwillingness of the holders of gold to exchange it for German paper. On the other hand, France, though the consequences of the consider-

* Convertible. † Inconvertible.

able advance in her paper-price of gold may be grave enough, has neither borrowed nor taxed herself as we have, and now that her people are returning to their habitual industry and frugality, we may confidently expect a speedy improvement in that quarter.

As regards the United Kingdom, gold would evidently be much dearer if the inconvertibility of our paper currency were regarded as likely to last long. The Bank of England is trying to restore its convertibility by the "time-honoured and time-proven method" of raising the Bank rate, and it is too early to say that it will not succeed. Our imports ought not to materially increase, and, if our exports continue to do so, gold will soon begin to flow into the Bank as of old, and the gold value of the currency will improve and ultimately be equalised. The raising of the Bank rate should stimulate our industries to increase their exports, as only so can gold be attracted and the Bank rate reduced. We have not estranged our customers nor lost necessary sources of raw material. The world wants our products badly, and nothing whatever stands in our way but industrial unrest and consequent low individual output.

Happily there are signs, in the increase of exports, that unrest is becoming less and output improving. But the movement is too slow. Every effort ought to be made to accelerate it. Markets may be lost by delay. The welfare of the entire community is at stake, and the setting aside of every restriction and regulation which reduces output is as urgently necessary now as it was at any time during the war. Our men of light and leading cannot too often or too earnestly press the need upon their followers. We have to repeat commonplaces until we really act upon them as the Chancellor of the Exchequer so well said in the debate referred to above.

Industrial Danger

The Birmingham Post, MAY 19TH, 1921.

TO THE EDITOR.

SIR,—The coal " stoppage " is, we are told, due to a too sudden " cut in wages." The collier is asked to accept, some say 60%, some 80%, of the wages he was receiving, and this, we are again told, he " naturally " objects to do. Stated in this way the collier's action is made to appear quite reasonable, and his grievance a very real one. But there is another side to the shield. Why is he asked to accept this reduction, and what will happen if the reduction, whatever it is, is refused ? To get an answer to these questions we must face some very big facts and give them full consideration. The Board of Trade returns furnish us with one set, the money market with another, and the census of production with a third. The broad principles involved in them are what is wanted ; and fortunately there is no difficulty in setting them out.

1. What do the Board of Trade returns tell us ? A glance at the mass of facts presented in these returns is sufficient to show us that our trade is falling off very seriously, notwithstanding a great reduction in the prices at which both exports and imports are taken. The principle here involved is, evidently, that sellers, whether in home or foreign markets, must either accept lower prices or have their goods left on their hands.

2. The money market facts again are, perhaps, so numerous as to be confusing to most people ; but no one will dispute that they show very many industries to be in urgent need of money, whether to enable them to hold the goods left on their hands or to produce more ; and that to get it they must be prepared to pay a very high rate of interest and be able to satisfy the lender that they can do so. The principle here involved is that many important businesses are faced with very great difficulty in carrying on for want of money.

3. The census of production facts are unfortunately old, or difficult to assemble. We have had no census of production since 1907. But the facts then recorded, coupled with others since furnished in various quarters, make it quite clear that our output per head in 1907 was only half that of some of our competitors, and that it is now much less than that. Explanations of this state of things vary—the blame is thrown sometimes on capital, sometimes on labour, and yet again on our lack of natural resources—but whatever the cause the great

fact remains, and it is indisputable. The lower output per man is very seriously increasing the cost of what they produce.

It is clear, therefore, that our industries generally are in danger, and that all of us ought to try and grasp the facts and the danger involved in them. It is international competition which inevitably determines selling price, and we must obey the economic law or go under. The coal trade is not the only trade which is faced by bankruptcy, though it seems to be the first to run the risk, and to be determined to incur it.

Why is the collier asked to accept the reduction of his wages ? and what will happen if the reduction, whatever it is, is refused ? He is asked to accept the reduction in order to make it possible to sell the coal he produces. The reduction will mean no loss of real wages if the output per man can be correspondingly increased, and that it can be so increased is placed beyond question by what has happened within the past few months. Indeed, there can be no possible doubt that nothing is easier than to get back to an output per man a good deal higher than before the war, if only Labour and Capital will unite in doing their best.

What will happen if reduction of cost is refused in the coal trade is only too clear. First, the coal trade will drift into bankruptcy, and then it is only too likely that many other trades will follow suit.

J. L.

Inflation of British Credit

The True Remedy a Larger Output

The Birmingham Post, September 29th, 1921.

In financial circles the terms "inflation" and "deflation" are now in constant use. To many in other circles the meaning of them is not clear, and to some they do not always seem to be used in the same sense. Let us see if we can find what their meaning really is when rightly applied to money. Money is always implied, whether expressed or not, when these terms are used by those who are considering or discussing financial questions. Money consists of two things—viz., currency and credit. Currency is either coin or paper, and credit passes in the shape of bills and cheques. Coin is of two kinds, standard and token. Standard coin is legal tender to any amount; token coin is legal tender to a limited amount only. Paper currency used generally to be convertible at the holder's request into standard coin. When not so convertible it may or may not be exchangeable for interest bearing Government stock or bonds. When so converted or exchanged it is cancelled. Bills and cheques are only exchangeable for goods when acceptable to the seller of such goods, but when so accepted they transfer the "credit" of the drawer to the acceptor, and the "credit" so passed takes the place of currency, and is practically money. We should now be in a position to see what "inflation" means when rightly applied to money.

What Inflation of Currency Means.

The *Century Dictionary* tells us that inflation of currency means "increase beyond the proper or just amount or value" thereof. This definition will serve our purpose if we can demonstrate that credit, like currency, can be "increased beyond the proper or just amount or value" thereof. The credit of an individual depends upon the amount his bankers can be persuaded to grant him, and bankers are very careful people, and not in this country only. We may, therefore, assume that the credit of individuals cannot be inflated very easily, and the same may be said of companies. Indeed, companies can only increase their credit by making fresh issues of either shares or bonds or their equivalent, and these fresh issues are always narrowly scrutinised. The credit, therefore, of both individuals and companies cannot be increased beyond the proper or just amount thereof to a dangerous extent in an ordinary way ; and if there were no other form of credit, "inflation" to a degree capable of upsetting the money market to a dangerous extent would be that of currency only. But the war has shown us there is an extraordinary form of credit capable of sudden and vast increase which is not without such danger. The British Government used the credit of Great Britain to increase that of its contractors, and to an extent which has most certainly seriously upset the money market. On the faith of that credit the Government borrowed lavishly, as indeed the war forced it to do. Vast contracts were entered into for war munitions and services, and the knowledge that the credit of Great Britain was pledged in payment gave the contractors power to buy materials at high prices and pay high wages ; to go to their bankers for the needed extraordinary advances, and to pass on their extraordinary credit to their workpeople and others. There is no question whatever that credit was thus increased. But to prove that it was "inflated" we must, if the *Century Dictionary* is right, show that it was increased beyond the proper or just amount or value thereof. There is no difficulty about this, for now that the contracts are closed, and that the Government is no longer giving out fresh ones, it is clear that materials and wages are above their value, and that credit was increased beyond value level. Value is, and always will be, the resultant of supply and demand. Many of our industries now find themselves unable to sell their products, and they are compelled either to close their doors or work short time. Unemployment proves this, for no one lets his works and plant remain idle if he can help it. The high prices are stopping sales because prices are increased beyond the "value" of the product. This condition of things proves that credit can be inflated to an extent which stops trade and upsets the money market, and that this country is certainly now suffering from such inflation.

Depreciation of Paper Currency.

But how about that other form of money, currency ? Has this been inflated in this country ? We have been compelled by the war to use our gold to purchase produce from other countries, and our paper currency being no longer convertible into gold is depreciated ; it no longer exchanges for the same amount of goods as if it were gold. Is this depreciation a proof of its "inflation" ? Our definition of inflation is "increase beyond the proper or just amount or value." Its value has certainly gone down, but has its increase gone beyond its proper or just amount ? This question must be answered in the negative, for it has always been exchangeable for interest-bearing stock or bonds, and it would inevitably have been so exchanged if it had not been wanted for the purpose of currency. Its depreciation, therefore, is attributable to its inconvertibility into gold, and is no proof of its inflation. We come consequently to the conclusion that the inflation from which we are suffering is the inflation of credit only.

A few words must be said about "deflation." We may hope that our Budget will balance without further borrowing, and that inflation will not increase. But it exists, and can only be deflated, honestly, by the repayment of debt. Debt can only be repaid out of surplus income. Our problem is how to get a surplus income large enough to redeem debt at a rate sufficient to restore confidence in our financial position. The solution of the problem is easy if we can but get seriously to work producing goods that will sell. The Director of the Census of Production in 1907 told us that our output per man was then approximately only one-half that of the United States. We are now told that it is only one-third of that output, and some say one-fourth is nearer the mark. If we could sufficiently increase our output per man, no doubt our goods would be saleable and our income would yield the surplus we need to make deflation easy. Every effort therefore, should be made to increase our output per man.

Germany's problem is different, since she has vastly inflated her currency and other European countries have followed her lead. These inflated currencies are not exchangeable for interest bearing securities —they are, in fact, enforced loans without interest. Undoubtedly they upset the money market, but it is a great mistake to allow the upset so caused to draw away our minds from the fact that our low output per man is quite enough to account for most of our own difficulties. Till we have set ourselves diligently to raise that output to a reasonable level we cannot rightly complain of the suffering which low output per man brings upon us, nor can we usefully dwell upon other financial disturbances.

Restriction of Output

Its National Danger

The Birmingham Post, OCTOBER 1ST, 1921.

MR. CHURCHILL'S gloomy picture of world depression may seem to contradict the statement, in the article " Inflation of British Credit," which appeared in our columns on September 29th, that the solution of the problem caused by our inflation of credit is easy if we can sufficiently increase our output per man. The writer of our article has asked us to insert the following as his effort to show that there is no real contradiction between the gloomy picture and the hopeful statement :—

" Mr. Churchill is no doubt right in painting a gloomy picture of world depression as it exists at the present time, but it will be noted that he has a few cheerful words to say regarding this country : ' We are paying our own way and we are maintaining our finances in a solvent condition, in spite of many difficulties.' He does not dwell upon our special difficulties or he would no doubt have referred to the restriction of output as among them, if not as the greatest of them. In *The Economic Journal* of June, 1917,* an article on the depreciation of British home investments has the following reference to the Director of the Census of Production :—

' He tells us that before the war the output per head of those employed in our industries was only half (roughly) that of the United States in theirs. To enable us to grasp the effect of this state of things upon the exceptional competition in this country, which has been regarded as a main cause of the depreciation for which an explanation is sought, very little consideration is needed. A low output increases cost of production in more ways than one. It entails larger premises, more machinery, and more supervision, in addition to greater numbers of workers. The larger premises and more machinery require more capital and involve higher rates and taxes. More supervision and greater numbers of workpeople involve extra wages. Raw materials and fuel, too, may be made more costly, in the same way, in proportion to the restrictions upon output affecting them, and the larger premises and more machinery likewise cost more if the industries producing them are in the same toils. All this additional burden—interest, wear and

* see page 30.

tear, rates and taxes, wages and cost of raw materials and fuel—enhances cost of production. The selling price of the product must be increased correspondingly. The industry concerned is thus handicapped when in open competition with other similar enterprises, however geographically distant, which enjoy better conditions.

'When, therefore, the Director of the Census of Production tells us that on the broadest statistical basis our pre-war production per head of those employed in our industries was only half that of the United States, it surely follows that our industries were hopelessly handicapped, and that our standing as regards competition was exceptionally bad.'

"This supports the serious character of restriction of output. If persisted in it must ruin our industries, and fully justify Mr. Churchill's gloomiest tones; but his cheerful words quoted above, added to the fact that during the war we proved that we can increase output if we like, are sufficient to show that there is no real contradiction between his speech and the previous article. We need, however, an immediate vision of the great danger we are in from restriction."

The Foreign Exchanges

The Birmingham Post, October 8th, 1921.

To The Editor.

Sir,—The article on the problem of foreign exchanges appearing in the columns of *The Birmingham Post* of the 5th instant will interest many. It overlaps to some extent that of the 29th ult. on inflation of British credit, but it deals simply and clearly with a complex subject, and many, including the writer of the last-mentioned article, will be glad to have it for reference.*

There is just one point in which the two articles seem to differ, and which it may be as well to try and clear up. The inflation article said in effect that the paper currency of this country is not inflated, whereas the other article seems to imply that it is, as it attributes its depreciation to the amount issued,† and not to its inconvertibility into gold. The reason it became inconvertible was that the gold which used to be in circulation had to be withdrawn and sent to America for goods which could not be paid for in any other way till securities were borrowed for the purpose. The amount issued was simply the amount absolutely needed for carrying on the business of the country, and the excess over the gold circulation was the excess needed in consequence of the high prices and the high wages, brought about entirely by the inflation of credit. Inflation does not begin till demand is exceeded, and demand for the paper currency never was exceeded by the amount issued in this country.

Interesting as the exchange question is, it should not be allowed to divert our attention from output per man. The ordinary member of the community can do little or nothing to influence the exchanges beyond attending closely to his own business. The exchanges will settle themselves when trade revives, and trade will revive when commodity prices are reduced to a sufficient extent. The world wants our products and means will be found to buy them when they are offered at competitive prices. On the other hand, if we hesitate instead of acting, others will get our customers and we shall find great difficulty in regaining them.

Our industries should take to heart what the London Letter of *The Post* tells them on the 6th inst.: "There is much work waiting to be done in the country for which people are willing to pay, but they hold their hands simply because labour in these times so largely declines to give value for money. If as much zeal were thrown into work as into agitation more work would immediately be provided." This is excellent.

Capital can help, and should do so in every possible way; but till Labour drops its restrictions capital is practically powerless.

The Writer of the Article on 'Inflation of British Credit.'

* See Appendix 1. † See page 72.

Hoarding of Currency Notes

Its unimportant effect on prices

The Birmingham Post, October 28th, 1921.

It is thought in some quarters (1) that the large amount (£310,753,557) of currency notes outstanding indicates that they are being hoarded, and (2) that hoarding indicates inflation of currency. Hoarding of currency existed when our currency included gold, and it then took the form of a hoarding of the precious metal. The hoarder of any large amount of gold was always regarded as rather a foolish person, as he lost income thereby ; but the possession of a moderate amount was not open to such criticism, seeing that a current account at one's bankers was the alternative, and that it, too, yielded no income. Hoarding of gold, then, was a question of quantity, and the quantity varied with the circumstances of the possessor—what was a reasonable reserve for one person was a foolish hoard for another. The hoarding of currency notes is a similar proceeding—foolish or not according as the amount actually kept in hand is, or is not, in excess of the possessor's needs.

It is quite likely that the number of those in this country who keep a reserve of currency notes in hand is considerably larger than that of the former possessors of sovereigns, for the high wages, now and for some years current, have increased the number of those able to indulge in the possession of such a reserve. This makes it reasonably certain that a considerable portion of the outstanding currency notes is thus kept in hand ; and as the number of the possessors is larger the amount held is no doubt correspondingly larger. The higher cost of living, too, adds to the amount needed by the individual in his daily expenditure, and this, in its turn, justifies him in keeping a larger sum in hand. Using the term, then, as including reasonable and foolish possession of currency notes " hoarding " no doubt is a very considerable cause of the large amount outstanding.

Less Effect than the Hoarding of Gold.

But does this indicate " inflation " ? The hoarding of the precious metals was never called inflation, nor looked upon as harmful to any but the hoarder. It, of course, added to the demand for, and consequently to the value (measured in other commodities) of, the precious metals ; but neither the hoarder nor the miner was ever accused of inflating the currency or regarded as a person harmful to anyone else. The hoarding of paper has far less effect on prices than the hoarding of gold. So the possessor of currency notes should not be accused of inflation ; nor the printer, so long as the amount issued does not go beyond demand ; and neither are any danger to the State.

The idea that the issue of currency notes in this country has gone so far as inflation is no doubt due to the fact that on the Continent it certainly has done so ; but there the notes, as they came from the printing press, were issued to creditors, who were compelled to accept them in payment of war debts due to them. Here our war debts were paid in money raised either by taxation or by borrowing. No individual was at any time compelled to accept the notes : he could have them if he wanted them ; but the nation's war debts were discharged by bills and cheques willingly accepted as money. The difference is fundamental, and it is a misuse of terms to call both methods inflation. One is so, the other is not.

The large amount of our currency notes outstanding is one of the effects of the inflation of credit brought about by the war, and, though it has helped to keep commodity prices high, it has never gone beyond " the proper or just amount or value " as have the Continental issues. Good judges indeed look for an early increase of the purchasing power of " sterling "—another name for our paper currency—and its value is already rising. When borrowing by our Government, and ca' canny by our workers, have been brought to an end, a return of industrial prosperity may be expected. The world wants our manufactures, and when their cost of production, which is coming down, reaches the necessary level, old conditions will return, bringing work for all, a full supply of gold, cheap money and, ultimately, the restoration of our gold standard. Meantime " hoarding " of the notes may be dismissed as quite unimportant.

Inter-Allied Debts

Can they be Reduced or Cancelled?

The Birmingham Post, November 9th, 1921.

The resolution unanimously carried at a special meeting of the British National Committee of the International Chamber of Commerce favoured either reducing or cancelling the debts of the Allied nations to Great Britain. Mr. Reginald McKenna too—a no mean authority on such questions—has issued a formal statement to the Press of the United States which is in full accord with this proposal. An examination of the questions involved, therefore, may be of service.

There are evidently many who think it would be well if some, at any rate, of these debts could be reduced or cancelled, as the best means of restoring the credit of debtor nations, and enabling them to resume their old trading activities. Great Britain made many of these advances, and as she was the only one of the Allies to escape invasion, with all its devastation, she is evidently regarded as the nation to set the example of reducing or cancelling such debts. It would be well if she could do so, and no doubt her people would cheerfully consent if it were found possible. She is, however, herself faced by a heavy liability to the United States, incurred during the war, of which she has not the slightest wish to delay full payment. The difficulty is that she does not possess the means of discharging it at the present time. She has already sent most of her gold and her American investments across the Atlantic, and her foreign trade is so reduced that she has temporarily lost her old command of the gold supply of the world. A large proportion of the world's annual output of gold still comes from the British Empire, but it has to be used to purchase the food supplies which the British Isles need and can no longer be paid for in our manufactures because their cost is too great. The result is that the gold of the world is gradually flowing to America.

Facts our Industries must Face.

The problem of discharging our war debt to the United States is a very real one, and it stands in the way of reducing or cancelling debts due to us; for we need gold badly, not only to pay for food, but also to pay interest on what we owe. The interest on the debts due to us thus becomes perhaps the only means whereby we can discharge our own current liabilities. Until our export of manufactured goods is restored, coal is our only exportable product, and that, too, will not go abroad at present because it also is too dear.

Our industries must face these facts, and must realise that they alone can set the ball of British trade rolling again and enable us to exist and pay our debts. It can only be done by bringing the cost of what we produce down to the figure that will make that produce saleable in the world's markets. The things urgently needed at home are: diligence on the part of both workers and management; the providing, and willing use of labour-saving machinery; and the acceptance of such wages and profits as can be earned. No standards set up either during the war or previously which militate against the necessary lowering of production-costs should be allowed to remain unaltered.

When there is evidence of these reforms having been earnestly undertaken there will be no lack of capital to enable our industries to do what is necessary; for possessors of capital, both here and abroad, know well that the resources of this country are not exhausted, and that no workers, or works' managers, in the world can do better work than ours can, if only they are willing to do their best.

Workers must Respond to the Call.

Another consideration should weigh with our industries. The United States already has more gold than she needs, and she will be only too glad to forgo further supplies, and even to reduce her holdings, when she sees the commerce of the world once more active. It will pay her better to use some of her gold to assist commerce, and she is too intelligent to keep so large an amount idle in her vaults when she sees that it can be safely employed in that way.

The competition of Germany cannot, in the long run, prevent our goods finding markets abroad, if we are determined to reduce our production-costs to the utmost. For Germany must either pay her workers, as she now does, in a constantly depreciating currency, or she must tax her industries to balance her Budget. In either case she must raise her prices to her customers, for neither workers nor industries can live on income which is poor and constantly being reduced. Her customers, too, must pay for what they buy, mainly, by sending their produce in exchange, and unstable currencies are very serious obstacles to trade. Germany's difficulties are indeed greater than ours, and we need not allow her energy to alarm us. But work we must, or starve; and our friends' debts to us must await our decision.

There is no cause for despondency, but there is every cause for effort; and till that effort is made, and made with a will, there is no probability that we shall either be able to feed ourselves adequately, or have the means to set the example of reducing or cancelling debt due to us. Nothing is wanted but determination to surmount difficulties which are mainly of our own creation; and we must get our workers to realise that they are injuring themselves if they do not respond to the call now sounding so loudly.

How to Restore Our Gold Standard

Higher Industrial Output Essential

The Birmingham Post, NOVEMBER 30TH, 1921.

SOME go so far as to oppose the restoration of our gold standard. Others know so little of currency matters that they take no pains to understand the question of its restoration. This article is not, primarily, intended for either of these groups, though it concerns their interests as much as anyone's. They who wish restoration, and to have it as soon as possible, are actuated by a sense of loss. A depreciated currency not only hurts them by its effect upon their own spending power, but, to an even greater extent, by its effect upon the national credit. To them, at this time, when the gold standard is under discussion, a careful examination of material facts may be welcome.

Our gold standard was the cornerstone of a financial edifice which had become "the greatest international monetary centre"—the clearing-house—of the world's commerce. Its loss injures, and even endangers, that edifice. Restoration is necessary if the world-wide and valuable business of that clearing-house is not to suffer, and perhaps go elsewhere.

We lost our gold standard by being compelled to send much of our gold to America to purchase greatly-needed war munitions, and machinery wherewith to equip our munition factories. We can restore it only by replacing our stock of gold. Fortunately, as Mr. Lloyd George told us at the Guildhall a few days ago, "we never rushed into the foolish policy of inflation of currency," and, consequently, it will not take much gold, comparatively, to replace our stock, and even to increase it, if necessary. The gold was not blown away in the war. It still exists, and, with much of the continued output of the world's mines, is encumbering the vaults of the United States in ever-increasing quantity. It would pay the United States much better to restore it to the commerce of the world if that commerce were restored to a sound basis; and we may be sure that it will be so restored ere long, for the world's products cannot long be prevented from moving about. They are as much wanted as ever, and the world's shipping is ready to move them.

When that happy time comes, as come it must, there is only one thing that can prevent our recovering enough gold to restore our gold standard. That thing is our failure to do our part in supplying the world with what it needs. We need not fail, for we possess all the resources necessary. We have within our reach all the raw materials we need. We have, mercifully, been spared invasion and the ruthless German devastation from which others have suffered so greatly. Our munition factories are equipped with modern machinery, and can, most of them, be used for peace production. Our workers, though thinned in numbers, and many of them wounded, in the war, are still with us, and are as skilful as ever. Our works management has lost none of its efficiency, and capital is not lacking.

Nothing, therefore, limits our output but either the want of will to work together and use all these resources and means, or the absence of demand for our products. There is no doubt that the effect of the loss of our gold standard on our world's commercial clearing-house is helping to limit demand for our products, but there is no reason whatever to think that our products would not be welcomed, and the products of other countries sent us in exchange for them, even though the restoration of our gold standard were delayed, if the price asked for our products were such as our customers regarded as reasonable.

Finance and price are therefore the difficulties in our way. Our financial authorities are striving to render all the assistance they safely can, but they cannot restore our gold standard without the help of our industries ; for our gold-store cannot be replenished as matters stand, except by a resumption of our former export trade. Government subsidies are of little or no avail, as they only add to taxation, and therefore to the price we must ask for our goods, whereas that price is already too high.

We come back, therefore, to the old conclusion : We must work, or we shall starve. Wages are not the crux ; they may remain much higher than they were before the war, if only our industries will do their best to increase their output. Strikes and ca' canny are potent causes of low output, but there are others. Capital needs the sympathy of labour just as much as labour needs the sympathy of capital. It is this mutual sympathy which is needed more than anything else. With it the wheels of commerce, already moving, would move more quickly, confidence would revive, gold would be released, and finance would be able to do more.

There are many signs that all this is making itself clear to the minds of men on both sides of that chasm of separation between the classes which the Board of Education is striving to bridge, if not to close. Benjamin Kidd is right in saying that it is through the young only that transformation can be effected, and those who wish to see the chasm bridged must not grudge the cost. Sympathy with the worker who demands a better education for his children may be the seed of a much wider harvest than is looked for by those who are feeling the pinch of taxation. Sympathy begets sympathy.

To return to our subject: We are right in seeking the restoration of our gold standard. It is the bed-rock of our national credit. We are right, too, in seeing that it is within our reach, but only if we can secure a higher industrial output per man. It is to this that attention is essential. Finance must not think it beneath its notice, nor must industry regard it as above its aim. It can be obtained easily, if sympathy can be allowed to take the place of suspicion. And we are justified in holding that the time is favourable for such a change, for the war, with all its lessons, has not been forgotten.

Unemployment:—Causes and Remedies

Greater output per man necessary

The position in the United States

The Birmingham Post, DECEMBER 23rd, 1921.

THIRTY-EIGHT years ago the writer, when in America, was assured by a manufacturer there in a large way of business (who had been visiting this country regularly for some years and studying its industry) that the much greater output per man in America not only enabled the States to pay much higher wages than we could, but to compete successfully with our products in the world's markets. Our Census of Production in 1907 confirmed this comparatively low output of ours, and such evidence as is available tends to show that we are now, comparatively, in even worse case than ever in this respect of output per man. The enormous burden which this condition of things places upon our industries is quite sufficient—apart from any other burdens —to account for unemployment here, for it handicaps us in the world's markets everywhere by making our products too dear, and therefore unsaleable.

But since unemployment exists in America also, notwithstanding the much greater output per man there—while it lasts indicating that some other cause or causes must be in operation there—it may be useful to seek an explanation of the fact. Discovery of the cause will not help us, unless it leads us to grasp and rid ourselves of our own disorder before our most active competitor overcomes his impediment and captures markets now open to us as well as to him. Perhaps the most remarkable economic effect of the war is the command it has given to the United States over the world's gold supplies. It is to this phenomenon that it may be worth while to give serious attention. We have seen how the vaults of the States have become encumbered with an amount of gold far in excess of the needs of their domestic finances, and that the accumulation continues steadily. This gold, which before the war had become the standard of value for the world's commerce, is now being hoarded in America, and—as a standard of value—has disappeared where inconvertible paper currencies have taken its place. These currencies are varying in value from day to day, and sometimes violently, and the consequence is that the commerce of the world has become so difficult that even the United States cannot sell its products freely, and unemployment prevails even there.

In London the foreign exchanges, measured in our depreciated paper currency, show that, except the Swiss, Dutch, and Swedish, which (allowing for the depreciation of our *sovereign*) * keep about par, and the United States dollar, which, of course, is at par, all are depreciated. Our paper currency is less so than any of the others, the nearest to it being the Spanish, Danish, and Norwegian, in the order named. The neutral nations of Europe, therefore, except the three first-named, show no superiority to Great Britain, and this is wonderful considering the enormous debt with which the war has saddled us. France and Belgium show a depreciation much greater than ours—approximately 12½% only. The devastation they have suffered at the hands of Germany fully accounts for this difference, and the splendid recovery they are both making entitles them to be placed alongside Great Britain in point of credit. Italy and Greece come next. They have both suffered seriously, and their recovery may be slow. Finland and Turkey are still lower. Serbia and Bohemia are certainly better than Germany, Hungary, Austria, Poland, and Russia, but it is impossible at present to see how any of these seven can put their currencies in a position to inspire confidence anywhere.

This very brief summary may help us to see what the exchange question really is. The world's products are wanted more than ever, but they have either been reduced in quantity by war, revolution, and excessive cost, or are prevented from moving about by broken railways and monetary instability. The United States has, at any rate, this advantage. She has a huge gold surplus which she can use wherever she sees its use likely to help her industries to get active again; and we may be quite sure she will so use it. The immediate exchange question, therefore, may be said to be this: How can the United States use her surplus gold so as to restart her industries, and do away with, or lessen, her unemployment?

She must be left to answer this question in her own way. It is her business to do so, not ours. But she will probably do what we did when the genius and hard work of our forefathers gave us wealth—use it to supply the world's needs, and to enable other countries, by the construction of railways, etc., to develop their own resources. We profited in this way, and so would she. Our business is to recognise this probability, and, at once, to put our own house in order, so that when the States get to work again our customers may not be driven to send their orders there instead of to us. We have not lost our genius, but, alas, idleness has largely taken the place of hard work. Our problem therefore differs fundamentally from that of the States, and it is a harder one. We are told that "in the economic crisis which has involved the entire world, only the nations which can pull together can hope to weather the storm." This is none other than economic law, and fortunately men are beginning to understand that it is so. Peace demands co-operation just as much as does war. We "played the game" in war; we must do the same in peace. But we must

* see letter on p. 59.

not let the antagonisms of war enter into our peaceful industries. The idea that trade and commerce are but other forms of war is wrong. They are necessary to our existence; and the necessity has, unhappily, often led to warfare; but that is only because of human infirmity. Goodwill is essential to every really successful business, and this applies to all its relationships. Master and servant, capital and labour, and everyone else concerned can, if they will, keep on good terms with each other, and the more they do so the better it is for the business. If we are to continue to enjoy the advantages of successful industry we must, all of us, in these days of easy and widespread access to all the world's markets, do what we can to encourage this spirit of universal goodwill, and allow nothing to obstruct the nation's special need—diligent effort to raise the output per man of our industries to the extent needed.

UNEMPLOYMENT: CAUSES AND REMEDIES.

The Birmingham Post, DECEMBER 24TH, 1921.

TO THE EDITOR.

SIR,—There is a slip in the article (headed as above) which appears in to-day's *Post.* As it is a matter of some importance, may I correct it? It occurs about the middle of the article and is contained in the phrase printed: "allowing for the depreciation of our *sovereign*" (see above * on p. 58).

The mistake is in the word "sovereign" taking the place of the sign "£." This sign appears frequently in the column giving the "method of quoting" of the exchanges in the table you publish. It does not now mean a sovereign but a £1 currency note.

It is important to put this right because (as a matter of fact) the sovereign is not depreciated anywhere where it can be melted. It contains as much gold as ever, and it is the gold in it which gives it its value. In London, where these daily quotations are made, the sovereign may not be melted, and its exportation without official permission is forbidden, and the consequence is that exchange quotations have to be made in currency notes, not in sovereigns.

Dec. 23. The Writer of the Article.

Need for Greater and Cheaper Output

How to Restore Health to Our Industries

The Birmingham Post, JANUARY 13TH, 1922.

To one whose calling has given him a life-long interest in economics, looked at from a very practical standpoint, the announcement that another Census of Production (in 1922) is to be taken in 1923 gives satisfaction. The former Census (1907) gave so much authentic information regarding the industrial position of the United Kingdom that the prospect of getting another such report is welcome.

Fifteen years ago an exceptional decline in the value of British home investments was attracting attention ; and when the Director of this, our first, Census of Production had revealed the fact that the output per man of our industries was only half that of the United States, the cause of that exceptional decline became manifest. Our industries were failing to supply the profit needed to support the investment markets, and our home investments were in consequence falling in price. It became clear, too, that the exceptionally low output of our industries was no new thing. The decline in the investment markets began in 1896, and the publications of the British Iron Trade Association showed that loss of power to compete had begun to reveal itself in that trade in that year. The writer's last article—on Unemployment, December 23rd—showed that in 1883 United States manufacturers were aware of the fact. We may, therefore, conclude that our declining power to compete dates back at least 40 years.

On December 24th last the *Post* published an article,* from another correspondent, on "Output and Wages at Home and Abroad : The Cause of Unemployment," which goes far to prove that our power to compete is now less than ever. That article has not been contradicted, and it shows that coal—practically our only home source of "power"—costs per ton (labour only) 30s. here, while in the United States it costs 7s. 3d. only. There is no reason why we should waste time in seeking for other causes of unemployment in this country ; excessive cost of production due to low output per man, is amply sufficient.

The output of coal per man per week in the first quarter of 1921 was shown by that article * to have been 3¾ tons in this country against 20 tons in the United States. We must not forget, however, that the United States have other sources of power—water, oil, and natural gas—which we do not possess. Nor must we forget that our low output per man is not confined to our collieries ; in 1907 it was shown to be general in all our industries.

* See Appendix 2.

We are, then, clearly suffering from idleness—not all of it wilful, though much of it is so. An enormous amount of our capital represented by works and plant is largely lying idle, too, and it is not too much to say that we are in consequence threatened not only with starvation, through loss of our foreign food supplies, but with bankruptcy also, through inability to sell our industrial products abroad. Our foreign trade returns for 1921, showing only a little over half those of 1920, are a very serious warning of the fate awaiting us if we do not mend our ways.

Mr. Lloyd George has told us at Cannes that "we are suffering as the result of the war from the worst unemployment ever seen in Britain," and Sir George Younger says that economy of national expenditure "is one certain way of solving the problem of unemployment and of restoring health to industry." Neither of these authorities, great as they are in their own special fields, seems to have the economic facts above set out in mind. The war can have had nothing to do with a restriction of output which has existed for at least forty years; nor can economy of national expenditure restore health to an industry suffering from sheer idleness.

The United States has reduced her national debt by something like £500,000,000 in the past eighteen months; she now claims to be "the greatest creditor nation in history"; and she is becoming active in developing the Dutch East Indies. These are all indications that we have no time to lose. If Germany—far less idle than we are—can persuade the United States to assist her in restoring famine-stricken Russia, we can look on without envy, for while our industries are paralysed by restricted output our £8,000,000,000 of national debt stands in the way of our undertaking such philanthropic work. But we cannot see the United States or Germany taking orders from those who possess excellent credit and who would willingly give them to us, if our prices permitted them to do so, without serious misgiving.

The Census of Production, 1922, will tell the world how we stand as regards power to compete with our industrial rivals, and we cannot too soon make up our minds that the tale shall be as favourable a one as possible. The year opens badly, and every effort must be made at once if it is to yield a showing which does us credit. We may be sure that our rivals will take every advantage of a poor showing, and, on the other hand, a good one will encourage us and go far to "restore health to our industry." Capital can do its part by introducing improvements and accepting small profits, and Labour can give an essential impetus by abolishing all restrictions upon individual output consistent with the well-being of the workers. But once again it must be said: There is not a moment to lose in either quarter.

Restoring World Commerce

Great Britain's Power to take part in it

Difficulties in the way and their Solution

The Birmingham Post, FEBRUARY 2ND, 1922.

THE trend of most of the writer's economic articles which have appeared in these columns has been in the direction of proving the danger to Great Britain arising from long-continued restriction of output per man in her industries, and the need for immediate reform. The difficulties which stand in the way of reform may—to those of us who look upon the after-effects of the war as demanding the reconstruction of the commerce of the entire world—seem so great as to be almost insuperable. If it is really necessary to effect this world-wide reconstruction before the industries of this country can regain anything like general activity, it would certainly need time; immediate resumption of activity would be impossible; unemployment would remain with us; and reforms would be difficult if not impossible. But is it so? The commerce of the world has, undeniably, been thrown into disorder by the war, and everywhere there is a longing to see pre-war conditions restored, so far as the interests of the individual country are felt to have been injured by the disturbance. We may go further and admit that, setting aside commerce which was carried on for the purpose of preparing for the war and giving the country so carrying it on advantage over its intended victims, the restoration of world-wide commerce is very desirable. It may therefore be useful to see how far it can be done, and whether it is necessary to do it everywhere at once.

At the outset we must emphasise the undesirability of the restoration of commerce likely to hasten another war by strengthening peoples who intend to inflict one on their neighbours as soon as they are strong enough to do so. The restoration of such commerce would be an economic error of the greatest magnitude; the world, and every peaceful nation and individual in it, should avoid that error. The problem we have to consider, then, is this: How far can peaceful commerce be restored? How far is it necessary to restore it everywhere at once? And how far can Great Britain, hampered as she is by an enormous debt and by low output per man in her industries, take part in the restoration? International commerce is really an exchange of the goods of one country for those of others. The need of "money"—as a measure of the relative values of the goods—does not involve the actual transfer of any of it from one country to another.

It is only when the values, so measured, do not balance that money must pass; and even then it may do so in the form of "credit" which, as we have seen in a former article, is money when accepted in payment. As between countries possessing stable currencies there is no difficulty in either measuring the values of the goods to be exchanged, or in the passing of an accepted amount of credit to balance any difference that there may be in their values.

Now though the war has disturbed currencies in many countries, it has not done so in all; and some even that have been disturbed, though depressed, have not become unstable to an extent to prevent business. As between such countries there is no difficulty, at the present time, in resuming commercial relations, if the values of the goods to be exchanged are mutually agreeable as between the producers and the consignees. The currencies which have not been disturbed are those of the United States, Japan, Switzerland, Holland, Sweden, and doubtless of a good many other countries which were neutral in the war. The disturbed, but not unstable (to any serious extent) currencies are our own (happily disturbed to a small extent only), and those of Spain, Denmark, Norway, France and Belgium. There is thus a very considerable part of the world in which peaceful commerce can be resumed as soon as prices are satisfactory. From what has been said it will be seen that there is no necessity whatever to restore commerce everywhere at once. Has it not, indeed, become clear that simultaneous restoration over all the world is a mere fantasy? The discussion that is going on in financial circles about "exchange" questions must not be allowed to mislead us into thinking that international trade has become impossible almost everywhere because of the war. It will be resumed, as a matter of course, between a great many countries as soon as ever prices have adjusted themselves to the needs of those countries. The needs exist. It is the prices alone that require attention.

The only part of our problem remaining for consideration is: How far can Great Britain, hampered as she is by an enormous debt and by the low output per man in her industries, take part in the restoration? As regards the burden of the debt, we have seen in previous articles that our debt to the United States calls for more than all the gold furnished by our Empire to discharge the interest upon it; that we may even need the help of the interest payable by our Continental Allies on what they owe us to furnish us with the means of discharging the rest; and that we are consequently unable to cancel those debts to us. Our entire debt is more than eight times the amount we owe the States. The service of so huge an amount is a burden upon our present national income which it can with difficulty carry. The consequent taxation is causing grievous distress. As regards the low output per man in our industries, its effect, as we have seen in these articles, is to render the cost of many of our products so great that the world cannot buy them, and our export trade is greatly reduced in consequence. In combination with our debt, this low output per man is, without doubt, threatening us with bankruptcy. Unemployment proves this. We can do little to assist in the restoration of such countries as Germany and Russia. They, and some of their neighbours, are in such financial and industrial morasses—their currencies hopelessly depressed and unstable, and their industries disorganised—that trade with them, however desirable, is almost impossible. They require credit—which we cannot give them, nor can we afford much help in the way of relief of the famine with which some of them are stricken. We must therefore, however reluctantly, leave their assistance almost entirely to other countries.

This is Great Britain's present unhappy position. But it is not hopeless, as these articles have repeatedly shown. Our industries have it in their power to solve the problem to the satisfaction of all of us. Masters and men working together, and abandoning their mutual suspicions and restrictions, can easily reduce the selling price of their products sufficiently to set our industries actively at work again, and to raise the national income to a point at which we shall be able to pay our debts and resume our great place in the world. Friendly conference between them will make all necessary reforms easy. And we have this to remember. Germany has lost her colonies and has offended many of her customers, including neutrals and those who have, in the past, furnished her with raw materials and food supplies. These losses may prove gains to us. Apart, therefore, from the claims of self-interest, surely our industries have, in this object of enabling our country to retake her proper place in the world, an ideal sufficiently powerful to kindle enthusiasm of a like kind to that which animated us all in the great war, and which, under God, gave us the victory.

Conclusion

ENOUGH has been said in these reprinted articles to enable the reader to get something more than a glance at the problem, and to realise its magnitude and, we may hope, its vital importance. It has been considered almost entirely as an economic one, but that it has other sides also is clear. Something " better than a programme of little work and big wages " (better, that is to say, than ca' canny) is seen by the President of the National Council of the Evangelical Free Churches, to be the great need of the times. That is precisely the conclusion to which our investigation drives us. That " something," if it is to meet the great need, must appeal to our sense of duty to our fellow-creatures. Anything less must fail. That is the moral side of the problem. Our investigation shows that ample wages do not stand in the way of industrial prosperity if other matters are attended to; and that fact is of prime importance, as it is to the fear of low wages and unemployment that we mainly owe our low output per man. Once make it clear to the worker that it is to " little work," that unemployment is due, and a great step towards the solution of our problem will have been taken. The moralist (whose assistance is much needed) will want the help of the economist, perhaps to enable him to see this truth himself, certainly to enable him to expound it properly to others. This is one reason this little book is published, but it should be useful to others. For instance, the very next sentence in the newspaper * from which the Rev. Samuel Chadwick's words, quoted above, are taken, tells us that the Federation of British Industries working in conjunction with local chambers of commerce, is organising a series of meetings throughout the country to arouse interest in the urgent need for economy in public expenditure. The political field with its inevitable controversies is thus to be entered. This little book should come in here also, for it should show the Federation and the chambers of commerce that, however urgent the need for economy in public expenditure may be, the urgency of the need for a greater output per man is very much greater.

The author's effort has been to avoid controversy as much as possible and to concentrate the attention of his readers upon the purely economic side of the disorder from which Britain is suffering. It is necessary to get to know what a disease is before a cure can be hoped for, and in this case, though moral and political symptoms have to be faced, the

* *Times*, March 8, 1922.

seat of what is wrong is, to the author, certainly in the economic region of Britain's activities. She is suffering from the low output per man in her industries which her first census of production has proved. If our output per man were as great as that of the United States our public expenditure, excessive though it may be, would be a burden we could bear without difficulty. The health of our industries would be restored; our greater export trade would banish our unemployment, bring us cheaper food, enable us to pay our debts, restore our gold standard, and enable us to take a worthy part in restoring world commerce and relieving foreign distress. On the other hand, if our output per man is not increased there is little doubt that our foreign trade will be taken from us by others whose output per man is greater, and, however much we may economise in our public expenditure, we shall gradually have to take a lower place among nations and, perhaps, sink to bankruptcy. Increase of output per man, therefore, is the only remedy for our disorder.

The approaching second Census of Production (with which the article appearing in *The Birmingham Post* of January 13th, 1922, deals) deserves a further word. It will give the world valuable information and it will give our industries much trouble in the returns they will have to make. Unemployment and industrial disputes, also, may put difficulties in its way. It is to be hoped that none of these facts, nor the combination of them, will prevent the Census being proceeded with. For the light it will throw upon the condition of our industries is needed to guide us in making whatever changes are necessary. Our "Blue Book" has a reputation which silences criticism. No one seems to refuse to accept its statements. The report, when it comes, with its abundant recent facts, will therefore be invaluable as a basis for reforming what is wrong. By minimizing discussion it will enable us to concentrate upon what is really needed and prevent much delay. These are great advantages at a time when reform is so widely called for.

Low output per man, as we have seen, is what Britain suffers from industrially, and increase of output per man is the only remedy for that disorder. How to obtain the remedy is the question. The disorder is due to the idea that a low output benefits the workers by increasing their numbers. What it really does is to increase the cost of the product and, if workers elsewhere give a sufficiently greater output, make the costly product unsaleable. Britian's low output per man now being general, throughout her industries, that of other countries, where the output per man is greater, is steadily rendering the marketing of her products difficult, and in some cases impossible. Hence, instead of increasing the number of her employed workers, low output per man is throwing many of them into the ranks of the unemployed. The problem, therefore, is to get her industries to recognise facts and determine to abandon false ideas. This is really an educational problem, and it is to education we must look for its solution. That, again, is a reason for the publication of this little book. The author hopes it may help the educationist to see where it is his duty to apply his energies in displacing wrong by right ideas. A recent economic writer says, " The heart of man is as a clock that gains a second in a century "—a very hopeless view ; but Benjamin Kidd tells us that, directed through the young in education, " the world can be absolutely transformed in a single generation." Kidd gives his reasons, and they are sound ones.

To the moralist, the Federation of British Industries and the Chambers of Commerce (already mentioned) must therefore be added the educationist, and last, but not least, the Press, as those to whom the author appeals for assistance. If he has succeeded (however imperfectly) in persuading others to give restriction of output per man in our industries more attention than it has hitherto received, he is more than satisfied. He has been encouraged by numerous and repeated requests for the publication of the articles ; and by the assurances he has received that they will be welcome, in this form, to many ; to hope that he may possibly have done something (however small) to help in bringing about reforms which will greatly benefit all the inhabitants of these islands and especially the poorest of them.

As this book goes to press, Dr. Arthur T. Hadley, President Emeritus of Yale University, U.S.A., comes across the Atlantic to address us on what is the real subject of these pages, " Economic Problems of Democracy." Dr. Hadley's lectures, we are told, are to be published shortly. Separately they are interesting ; combined, their value to us, in our efforts to remedy our own economic disorder, should be great. It seems clear that it is to education that Dr. Hadley looks for the ultimate solution of the Problems with which he, and these pages, have been dealing.

Just one final word may be useful. We shall not remedy our economic disorder by seeking concessions from Russia. Russia's sufferings demand our sympathy and such help as we can give her ; but we need food and raw materials, and Russia can send us neither. It will be years before she can export, in quantity, anything that we need except, perhaps, oil. Meantime, we must get our supplies elsewhere, and pay for them with goods sold at competitive prices. Our immediate need is to get the prices, at which we can offer our goods down to this competitive level. Until we have done that we are ourselves in dangers of starvation.

APPENDIX I. *

Problem of Foreign Exchanges

An Explanation of their Fluctuation

The Position of America and Germany

(From a Correspondent.)

The Birmingham Post, OCTOBER 5TH, 1921.

BEFORE the war the process of making payments abroad and receiving payments from abroad was so simple, and the fluctuations in the rates of exchange, with a few exceptions, were so small, that the question of foreign exchanges and why they fluctuated at all seldom entered the minds even of those who were almost entirely engaged in importation and exportation on a large scale. The general principles involved in the problem of foreign exchange appear to have been well understood for nearly a century, but the knowledge was confined mainly to political economists, some of the bankers, and comparatively few others. At the present time, when the condition of the foreign exchanges has a most serious effect on employment and upon the cost of living, it is exceedingly unfortunate that accurate knowledge on the matter is not more widely diffused.

As a result of gradual development through the centuries, money, which serves the double purpose of a means of exchange and a measure of value (though not a constant measure), had taken three standard forms—those of gold, silver and paper. Since gold is a commodity which is very costly to extract from the earth, and since the cost of extracting it, as measured in the commodities consumed by the capitalists, managers, and workmen engaged in the process, does not tend to vary it rapidly, the value of gold as measured by the volume of other commodities for which it may be exchanged tended to keep fairly steady. The value of gold as measured in other commodities, however, is not dependent solely upon its cost of production at any one time, because of the fact that the annual production, great though it is, is small compared with the accumulated gold in the world.

As a result of the discoveries of new goldfields and the improvements in the methods of obtaining gold, the cost of production of gold was tending to fall for sixty or seventy years before the outbreak of the war, but, at the same time, for a considerable part of that period the cost,

* See page 49

measured in human effort, of producing other commodities was falling even more rapidly, with the result that from 1850 to about 1895 prices, as we commonly understand them, fell rapidly. On the other hand, from 1895 onwards the cost of production of gold appears to have fallen relative to the cost of production of other things as a whole, and, accordingly, between 1895 and 1914, there was a steady gradual rise in prices, averaging something between 1% and 2% per annum.

Let us now consider the rates of exchange between two countries both posssesing a gold standard, shall we say, the United Kingdom and the United States. The standard coin in the United Kingdom is the golden sovereign, containing a certain definite weight of pure gold, the weight being fixed by Act of Parliament. In the United States the standard is the gold dollar, also containing a certain fixed weight of pure gold in accordance with an Act of Congress of the United States. The respective weights of pure gold were such that there was as much gold in 10,000 sovereigns as there were in 48,666 dollars. It is evident, therefore, that, other things being equal, the exchange of dollars for sovereigns would result in the exchange of equal amounts of gold if 10,000 sovereigns were exchanged for 48,666 dollars. In practice, we say that the Mint par rate of exchange between this country and the United States is \$4·86$\frac{2}{3}$ to the pound sterling.

How We Pay our Debts.

In everyday commercial transactions, of course, we do not usually pay any debts to our business friends in the United States by sending them actual golden sovereigns, but we use such things as cheques, foreign money orders, bills of exchange and bank credits for the purpose. If we owe dollars to a man in America we can settle the account by buying from someone in London a bill of exchange, for example, which entitles the present owner to so many dollars in America on such and such a date. Or, alternatively, the American to whom we owe the money can ask us to " accept " a bill of exchange, which is, in fact, an undertaking to pay him so many pounds in, say, London on such and such a date. On the receipt of this document he would endeavour to sell it to someone in New York who had to pay a bill in London, and accordingly wished to obtain funds in London.

It is a matter of indifference, from the point of view of understanding the principles, in what form we consider the payment to be made, so long as we understand that there are people in England possessing sovereigns who are seeking with them to buy the right to own dollars in America, and, on the other hand, people in America possessing dollars seeking to buy the right to own sovereigns in London. Every sale of goods by someone in this country to someone in America, and every service rendered by someone in this country to someone in

America, will lead to a demand for sovereigns on the part of Americans in order to pay for the goods or services, as the case may be. Equally well, any goods sold to people in this country by Americans, or any services rendered by Americans to people in this country, will lead to a demand for dollars in order to pay for those American goods and services. If at any time it happens that people in this country are owing people in America more for goods and services than people in America are owing in this country for British goods and services, it will be evident that the demand for dollars on the part of people in this country will exceed the demand for sovereigns on the part of people in America, and therefore the price of dollars will go up—that is to say, less will be received for each sovereign. The same situation looked at from America is the exact reverse, and the price of sovereigns appears to be going down.

The Movements of Capital.

In addition to goods and services, the situation is also affected by interest on investments and the exportation and importation of capital. When all the factors which enter into the balance of trade are taken into account, and the result is that more payments have to be made by people in England to people in America than there are to be made by people in America to people in England at any given time, then it will be found that there will be a tendency for the number of dollars given in exchange for each sovereign to diminish. This buying and selling of dollars for sovereigns really consists of the buying and selling of pieces of paper which represent the ownership of dollars and sovereigns, because, of course, it is evident that if the actual metallic coins were involved the rate of exchange could not be affected by the balance of trade any more than can the number of ounces in a pound of tea be affected by the amount of business a tea merchant is doing.

It may be asked why people were prepared to pay more for a dollar than usual when they could have settled the account by buying the actual golden dollars with golden sovereigns. It must be remembered, however, that it costs something to ship gold from this country to any other country. There is the cost of the carriage, and also the cost of insurance against loss by theft or by the sinking of the ship. In actual practice, what happened was that so long as the fluctuations in the rate of exchange were less than the cost of shipping gold one way or the other, as the case might be, there was little or no tendency for gold to be shipped ; but as soon as the rate of exchange moved to a point at which it was slightly cheaper to settle the account with the shipment of gold, gold was, in fact, shipped. Not, of course, by the ordinary trader, but by the banks.

Before the war, when there was a free export of gold, the rates of exchange, except possibly for a very short period, could never go above or below the gold points. During the war, the balance of trade between this country and America was entirely upset, owing to the fact that we had to import much more of everything, at a time when we were not in a position to export as much, and the inevitable consequence was that the rate of exchange started to go down, and less dollars were received for the sovereign. To a certain extent, this was corrected by exports of gold; but after a time other steps were taken, and large sums were borrowed in the United States by the British Government, first of all privately, and then, when America joined in the war, direct from the American Government, and enough was always borrowed to maintain a fixed rate of exchange of 4·76 cents to the sovereign. The war increased largely the cost of shipping gold, and very largely indeed the cost of insuring it, and the point at which the American exchange was "pegged" was much higher than the gold export point.

Depreciating the American Exchange.

About six months after the Armistice, it was decided that it was bad policy to continue borrowing in America for the purpose of supporting the exchange, and as a consequence the American exchange fell to a very great extent, going as low as 3·20 to the pound, and it became necessary, in order to conserve the gold supply of the country, to prohibit the exportation of gold, and therefore, for the time being, the gold export point ceased to be of any importance. This depreciation of the American exchange, by reducing the number of dollars obtained for each sovereign, makes it necessary to spend a greater number of sovereigns in order to obtain a given number of dollars; and, therefore, of course the price of everything we buy from America is raised in consequence, and this naturally tends to reduce the amount we import from America. On the other hand, the American can now buy a given number of sovereigns for a smaller number of dollars, and therefore the goods which he may buy from England are much cheaper than they would be if the exchange was at par, and therefore there is a tendency for Americans to import more British goods than, other things being equal, they would do.

The American exchange is depreciated because we have been buying too much from America and selling too little, and the effect of the depreciation is to restrict our purchases from America and to increase our sales to America. Of course, when the word "sales" is used, not only goods are thought of, but services and everything else which enters into the balance of trade. It will be seen, therefore, that in the long run exchanges tend to put themselves right.

So far we have been considering merely the way in which the exchange is disturbed when the balance of trade happens to be disturbed, but, as a matter of fact, the rate of exchange may be disturbed in quite another way. Before the war, this country and the United States both possessed a gold standard, and any notes in existence could be freely changed into gold, as notes, in fact, are only issued against gold. At the present time, there is not an unqualified gold standard in either country, because in the United States notes have been issued which are not covered by gold, while in this country, under the provision of of the Currency Act, 1914, over £300,000,000 of currency notes have been issued,* less than fifty millions of which are covered by gold, and on account of the condition of the exchanges the export of gold from this country has been prohibited, though the same does not apply to the United States.

One of the factors which has raised the price of commodities has been this issue of paper money, which may be regarded as the manufacture of purchasing power without any corresponding manufacture of goods, and it is quite evident that if purchasing power is produced in a given time more rapidly than goods, and if it is used, then prices will rise because the demand will exceed the supply.

We have, therefore, an entirely new state of affairs, because the par rate of exchange is not the rate of exchange of a golden sovereign for a golden dollar, but the rate of exchange between a piece of paper which is called a dollar and a piece of paper which is called a pound, and if the balance of trade between the two countries was not disturbed the rate of exchange would tend to be the ratio between the purchasing power of the paper dollar in the United States and the purchasing power of the paper pound in the United Kingdom. Of course, the purchasing power in this case is not quite the same thing as the cost of living, but the purchasing power is measured in the wholesale price of those commodities which are customarily exchanged in the course of trade between the two countries.

Unfortunately the statistics which are compiled as to the level of wholesale prices are imperfect in both countries, and what is worse, imperfect in different ways, and therefore, though this par rate of exchange, technically known as the market par rate, exists, and incidentally tends to change with every variation in prices of commodities, yet it is impossible to calculate it accurately for any particular day. I should be inclined to say that the present par rate of exchange between paper pounds and paper dollars lies between 4 dollars and 4·25 dollars to the pound, whereas the actual rate of exchange at the time of writing is 3·73, so that if my guess of the market par rate is somewhere near the truth, the actual rate has depreciated below that by something a little more or a little less than 10%, as the case may be.

* see page 49

The German Position.

When we come to compare our position with that of Germany the same principles apply, but, of course, the other way round, from the British point of view. At the moment the German exchange is extremely unstable, and wholesale and retail prices at the moment appear to be rising in Germany, whereas they are falling here, so it is even more difficult to estimate the market par rate of exchange than as between this country and the United States. When the writer was in Germany at the beginning of May, the exchange rate of the mark was a penny, while from investigations based both on official statistics and on private experience it was found that the internal value of the mark was nearly 2½d.—that is to say, the mark in Germany would buy nearly as much as 2½d. would in England. This means that the market par rate of exchange of paper marks for paper pounds was somewhere in the neighbourhood of 100 marks to the pound, while the acutal exchange rate was 240. Since then, on account of the fact that the Germans are not balancing their Budget, they have had to borrow heavily from the Imperial Bank of Germany, and the borrowing has been made possible, not by lending real money, but by creation of credit, and this in turn has led to further creation of paper money, so bringing about increases in prices in Germany. This, of course, in turn leads to the market par rate altering, so that if the balance of trade between Britain and Germany was undisturbed more than 100 marks to the pound would now be obtained. What the market par rate is at the moment it is impossible to say, but the writer suggests that 140 to the pound is somewhere about right. Without any disturbance of the balance of trade this in due course would have brought about an equivalent depreciation in the actual rate of exchange—*i.e.*, to about 330—but would have left the ratio between the market par rate and the actual rate unaltered—that is to say, the internal value of the mark would still have been about 2½ times the external value.

It has happened, however, that during the same period the German Government has found it necessary to make large purchases, with marks, of dollars, pounds, francs, etc., for the purpose of the reparation payments which she has to make, and at the same time German manufacturers have been making very heavy purchases of raw materials abroad, and the combined effect has been to depreciate the external value of the mark to a far greater extent than the depreciation of the internal value, so that at the moment the actual rate of exchange is in the neighbourhood of 480 marks to the pound. Since the market par rate is now about 140 to the pound, this means that the Germans can sell goods made of German raw materials at prices equal to about 30% of the price at which British goods can be offered.

For the moment, of course, this means an immense stimulus to German exports, and as these exports are paid for, exporters in other countries will find it necessary to buy marks to a very large extent, and therefore, other things being equal, the value of the mark will tend to improve. A good many people seem to be of the opinion that it is the creation of credit and currency in Germany, to which the term "inflation" is commonly given, that is the cause of Germany's exporting advantage, but the above explanation will make it clear that the real cause is the disturbed balance of trade, that is to say, Germany's payments abroad in respect of raw materials and in respect of reparations are for the moment in excess of her capacity to make payments abroad due to her exports. We also see that as her exports grow so will her exporting advantage diminish, until ultimately the external value of the mark will approach the internal; or, put another way, until the actual rate of exchange approaches the market par rate of exchange.

APPENDIX II. *

Output and Wages at Home and Abroad

The Cause of Unemployment

(From a Correspondent.)

The Birmingham Post, DECEMBER 24TH, 1921.

WAGE reductions are provoking keen debate, and in Labour quarters disappointment and discontent. Labour is paying the penalty for past errors. There are two big points in the labour problem which Labour, unfortunately, has overlooked in the past. One point is that living standards are not governed by money wages so much as by the supply and price of commodities. A minimum wage of £100 is useless if the necessary goods are not available. It is not the amount of the wage, but the quantity of goods the wage will buy, that counts. The other, and related point, is that high production, and nothing else but high production, can bring a high standard of living. Labour has adopted the policy of restriction and costliness—the policy of low output and high pay—and this has resulted in scarcity of houses, for instance, in high prices of food and clothing, and in a foreign consumers' strike which has plunged us into unemployment.

Fortunately, we are gradually returning to the old idea of a fair day's work for a fair day's pay, and so, with our superior mechanical appliances, we shall eventually be better off than at any previous time. Our miners are actually producing nearly 100% more coal to-day, per man-hour worked, than they produced only nine and twelve months ago. With some 300,000 miners unemployed, and the rest only working 3½ short days per week, we are getting very nearly as much coal as we obtained when the full complement of men were in full employment, and drawing the highest wages on record. Cheaper coal will bring industrial revival, in which the miners themselves will share. It is mainly because our coal was too costly and too scarce in 1919–20 that we suffer so much unemployment in 1921. Let us look at a few figures :—

COAL-MINING RESULTS IN THE FIRST QUARTER OF 1921.

	Weekly Wage (average).	Output per man (average).	Cost per ton. (labour only).
United States	£7 5s. 0d.	20 tons.	7s. 3d.
United Kingdom ...	£5 12s. 6d.	3¾ ,,	30s. 0d.

Our wages have not been too high per man or per week ; but they have been vastly too high per ton. Taking one of our most self-contained and up-to-date North of England coal and iron concerns, we have this record :—

* see page 60

British Wages Per Ton of Ordinary Steel Produced in Modern Works.

	1913.	1920.
	s. d.	s. d.
On Ironstone, per ton	2 3·1	8 4·5
Coal	6 3·9	22 10·6
Limestone	1 3·4	4 6·1
Coke	13 0·8	50 8·8
Pig-iron (including above)	29 10·1	123 9·9
Steel (including above)	68 5	296 6·6

Why We Could not Compete.

At any time during 1919-20, and up to a few weeks ago in 1921, it was roughly true to say that the fuel cost of a ton of British steel was as high as the combined ore, lime, fuel, and labour cost of a ton of foreign steel. We could not compete. We could not obtain big forward contracts. To-day we see five of our blast furnaces out of every six standing cold; two-thirds of our steel capacity is idle, and the other third kept going only on foreign iron and scrap; two-thirds of our engineering capacity is idle; two-thirds of our ships, seamen, and dockers are idle; and, finally, we have widespread unemployment and short time among the miners—thanks mainly to low output and high cost of coal during the last two or three years.

For some considerable time now 600,000 miners in the United States have produced twice as much coal as 1,200,000 miners have produced in the United Kingdom. A quarter of a million men employed by the United States Steel Trust have produced 50% more steel than half a million men employed by our British firms have produced. We cannot do all they do in America; but we could and we ought to do at least half as much. Look at this little table :—

Average Weekly Output of Coal per Mine Worker.

	In 1883.	In 1918-19-20.
	Tons.	Tons.
America	8	20
Britain	6	4

If we got 6 tons nearly forty years ago, we ought to get 8 tons now, with our greatly improved appliances. If it has been possible for the Americans to improve from 8 tons to 20 tons, we ought to have improved from 6 tons to 10 tons. Our fall to 4 tons is deplorable. However, we are at last improving. Here let it be remarked that we can stand coal twice as dear as the Americans can stand it, because we have our mines, works, and ports all practically side by side; but we cannot stand our coal four times as costly as American coal. Yet that is the state at which we stood only a few months ago.

Ship-Repairing Competition.

Turning to the Continental competition it may be remarked that for a considerable time we have had British vessels going to the other side of the North Sea for repairs. In the following figures we have an explanation :—

Ship Repairing Wages, Per Hour, 1920, at South Shields.

	s.	d.
Platers	4	7
Joiners	2	3½
Blacksmiths	1	11¾
Strikers	1	7
Platers' Helpers	1	8½
Shop Labourers	1	7
At Rotterdam.		
Skilled men (all trades)	1	7½
Skilled Labourers	1	6¼
Unskilled Labourers	1	3½

But that is not all. Whilst our unions allow only one short shift per day, and limit overtime to six hours per week, in Rotterdam the men work double shifts and unlimited overtime. Continental repairers guarantee shipowners that work will proceed at least 20 hours per day. This is important where tides, sailings, contracts, and sometimes perishable cargoes are concerned. Fortunately, our wages have been reduced recently, but the short single shifts and the ban on overtime remain.

In the last ten years before the war the United States without "ca canny," absorbed a million immigrants per annum, plus the increased native population, and provided them with the highest living standards in the world. In the last ten years before the war Germany found employment and rising wages for a population which increased three times as fast as our population. In that period, for every German that emigrated, ten British-born subjects emigrated relatively to population, and yet we had far more unemployment and poverty among the workers remaining at home than they had in Germany. And to-day industrial Germany is working whilst we are unemployed. Men and nations thrive on hard work. They decay on laziness.

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